

# 中原銀行股份有限公司

## ZHONGYUAN BANK CO., LTD.

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

Stock Code: 1216

# GLOBAL OFFERING



### Joint Sponsors



J.P.Morgan



### Financial Advisor



### Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



J.P.Morgan



### Joint Bookrunners and Joint Lead Managers



## IMPORTANT

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

# ZHONGYUAN BANK CO., LTD.\* 中原銀行股份有限公司\*

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

## GLOBAL OFFERING

Number of Offer Shares in the : 3,300,000,000 H Shares (comprising 3,000,000,000 H  
Global Offering Shares to be offered by the Bank and 300,000,000  
Sale Shares to be offered by the Selling  
Shareholders subject to the Over-allotment Option)

Number of Offer Shares in the : 2,970,000,000 H Shares (subject to adjustment and  
International Offering the Over-allotment Option)

Number of Hong Kong Offer Shares : 330,000,000 H Shares (subject to adjustment)

Maximum Offer Price : HK\$2.53 per H Share (payable in full on application  
in Hong Kong dollars, subject to refund on final  
pricing), plus brokerage of 1%, a SFC transaction  
levy of 0.0027% and a Hong Kong Stock Exchange  
trading fee of 0.005%

Nominal value : RMB1.00 per H Share

Stock code : 1216

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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", 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 (Cap.32). 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. The Price Determination Date is expected to be on or around Wednesday, July 12, 2017 and, in any event, not later than Monday, July 17, 2017. The Offer Price will be no more than HK\$2.53 per Offer Share and is currently expected to be no less than HK\$2.42 per Offer Share unless otherwise announced. If, for whatever reason, the Offer Price is not agreed by Monday, July 17, 2017, between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), the Global Offering (including the Hong Kong Public 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 mainland of the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated businesses. 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. See "Risk Factors", "Supervision and Regulation", "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association".

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 under the Global Offering and/or the indicative offer price range stated in this prospectus (which is HK\$2.42 to HK\$2.53 per H Share) 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, notices of the reduction in the number of Offer Shares and/or the indicated offer price range will be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese). Such notice will also be available on the websites of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Bank at [www.zybank.com.cn](http://www.zybank.com.cn). See "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "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 as defined in 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.

\* We are 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/deposit-taking business in Hong Kong.

June 30, 2017

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Latest time for completing electronic applications under <b>White Form eIPO</b> service through the designated website <b>www.eipo.com.hk</b> <sup>(2)</sup> .....	11:30 a.m. on Tuesday, July 11, 2017
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Tuesday, July 11, 2017
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms .....	12:00 noon on Tuesday, July 11, 2017
Latest time for giving <b>electronic application</b> <b>instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Tuesday, July 11, 2017
Latest time for completing payment for <b>White Form eIPO</b> applications by effecting Internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Tuesday, July 11, 2017
Application lists close <sup>(3)</sup> .....	12:00 noon on Tuesday, July 11, 2017
Expected Price Determination Date <sup>(5)</sup> .....	Wednesday, July 12, 2017

(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**<sup>(6)</sup> and the Bank's website at **www.zybank.com.cn**<sup>(6)</sup> on..... Tuesday, July 18, 2017

- (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..... Tuesday, July 18, 2017

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function from..... Tuesday, July 18, 2017

H Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before<sup>(7)</sup>..... Tuesday, July 18, 2017

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## EXPECTED TIMETABLE<sup>(1)</sup>

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White Form e-Refund payment instructions/refund cheques  
in respect of wholly or partially unsuccessful applications  
to be despatched on or before<sup>(8) (9)</sup> . . . . . Tuesday, July 18, 2017

Dealings in the H Shares on the Hong Kong  
Stock Exchange expected to commence at 9:00 a.m. on . . . . . Wednesday, July 19, 2017

The application for the Hong Kong Offer Shares will commence on Friday, June 30, 2017 through Tuesday, July 11, 2017, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving banks on behalf of the Bank and the refund monies, if any, will be returned to the applicants without interest on Tuesday, July 18, 2017. Investors should be aware that the dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Wednesday, July 19, 2017.

*Notes:*

- (1) All dates and times refer to Hong Kong local time, except as otherwise stated. For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed “Structure of the Global Offering.”
- (2) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at [www.eipo.com.hk](http://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 the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, July 11, 2017, the application lists will not open on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” for further details.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS.”
- (5) The Price Determination Date is expected to be on or about Wednesday, July 12, 2017, and, in any event, not later than Monday, July 17, 2017. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us on or before Monday, July 17, 2017, the Global Offering will lapse.
- (6) None of the website or any of the information contained on the website 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 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 prior to 8:00 a.m. on the Listing Date. 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 under the Hong Kong Public Offering and have provided all required information may collect refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 18, 2017. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorized representatives each bearing a letter of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity to our H Share Registrar. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. For details of the arrangements, please refer to the section headed “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies.”
- (9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.

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## **EXPECTED TIMETABLE<sup>(1)</sup>**

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The H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Purchase Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing date (which is expected to be on or about Wednesday, July 19, 2017). Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Shares certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus respectively.

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*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 Joint Global Coordinators, the Underwriters, any of our or their respective directors, officers or representatives, or any other party involved in the Global Offering.*

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## SUMMARY

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

*In order to present our financial condition and results of operations on a comparable basis during the Track Record Period, we have added the corresponding statement of profit and loss and other comprehensive income line items (i) for the period from January 1, 2014 to December 22, 2014 in the Combined Financial Information and (ii) for the period from December 23, 2014 to December 31, 2014 in the Historical Financial Information, and used the average of statement of financial position line items of the Predecessor Entities as of January 1, 2014 and of the Group as of December 31, 2014, for purpose of presenting statement of profit and loss and other comprehensive income figures for the full year ended December 31, 2014 for the calculation of financial ratios and average balances as of or for the year ended December 31, 2014 in this section and other sections of this prospectus.*

### OVERVIEW

We are the largest city commercial bank in Henan Province, in terms of total assets, total deposits from customers, total loans to customers, total shareholders' equity, operating income and total number of outlets as of and for the year ended December 31, 2016, according to the CBRC Henan Office. We are the only city commercial bank directly administered by the provincial government in Henan Province. We ranked 210<sup>th</sup> among the “Top 1000 World Banks” in terms of tier-one capital as of December 31, 2015 by *The Banker* in 2016, being the 31<sup>st</sup> among all PRC commercial banks, and the 9<sup>th</sup> among all PRC city commercial banks on this list.

We invested in building up a business network with comprehensive coverage across Henan Province. As of December 31, 2016, we had one head office, 17 branches, 421 sub-branches, including 305 city-level sub-branches, 116 county-level and township-level sub-branches, and a total of 439 outlets, which covered all 18 prefectural-level cities and 82 counties, representing approximately 80% of all counties across Henan Province. In addition, leveraging favorable policies promulgated by the Henan Government, including “Opinions on Accelerating the Development of Zhongyuan Bank (《關於加快中原銀行發展的意見》)”, we successfully established and enhanced long-term relationships with government agencies, public institutions and enterprises with strategic importance in Henan Province and China. As of the Latest Practicable Date, our corporate banking customers included many leading state-owned and private enterprises in Henan Province, covering a wide range of industries.

Since the establishment of our Bank, we have invested in the development and application of advanced financial technology to establish and maintain our competitiveness, in particular, technologies that are crucial to our business operations and internal management. For details, please see “Business — Information Technology — Overview” on page 231 of this prospectus. Capitalizing on our in-depth knowledge of our customers' preferences for financial products and services in the Internet era, we have established a competitive edge over our industry peers by promoting various products and services with strong technology capabilities. In 2016, we were granted “Gold Reputation Financial Technology Security Award (金口碑金融科技安全獎)” by the *Modern Bankers* and Hongru Financial Education Foundation (鴻儒金融教育基金會) in recognition of our achievements in providing technical support to our customers for secure electronic transactions.

Our total assets grew at a CAGR of 44.7% from RMB206,947.8 million as of December 31, 2014 to RMB433,071.4 million as of December 31, 2016. According to the CBRC Henan Office, our market share in terms of total assets, total deposits from customers, total loans to customers and operating income was 6.1%, 4.8%, 4.3% and 5.5% as of and for the year ended December 31, 2016, respectively, among all banks in Henan Province.



## SUMMARY

We have received several honors and awards for our business performance and management. For example:

- In 2015 and 2016, we were recognized as “The Best City Commercial Bank (年度最佳城市商業銀行)” by the Institute of Finance and Banking of the Chinese Academy of Social Science (中國社科院金融研究所) and *Financial News* (金融時報).
- In recognition of our outstanding performance in the interbank domestic currency market, we were granted “The Best City Commercial Bank Award in the Interbank Domestic Currency Market (銀行間本幣市場最佳城市商業銀行獎)” in 2015 and “The Outstanding Dealer in the Interbank Domestic Currency Market (銀行間本幣市場優秀交易商)” in 2016 by China Foreign Exchange Trading System & National Inter-bank Funding Center.
- In 2015, in recognition of our outstanding contribution to the real economy, we were awarded the “Best Bank in Serving the Real Economy (最佳服務實體經濟銀行獎)” by Henan Banking Association (河南省銀行業協會).
- In 2015, in recognition of our contribution to the local economy, we were granted the “2014 Best Service to Local Economy (2014年度最佳服務地方經濟獎)” by *Modern Bankers*.

Our Bank was established through the consolidation of the Thirteen City Commercial Banks, all of which were city commercial banks in Henan Province with relatively smaller scale and limited potential for development, in accordance with policies issued by the PRC government and other authorities for promoting establishment of a city commercial bank directly administered by the provincial government in Henan Province to better serve the development of the Central Plains Economic Zone (中原經濟區). Please also see “Our History and Development — Our History” and “Our History and Development — Reorganization”.

Our principal lines of businesses include corporate banking, retail banking and our financial markets business. The following table sets forth our operating income by segment for the periods indicated:

	From January 1, 2014 to December 22, 2014		From December 23, 2014 to December 31, 2014		For the year ended December 31,					
	Amount	% of total	Amount	% of total	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount <sup>(1)</sup>	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except for percentages)										
Corporate banking .....	6,164.1	67.9%	102.5	23.5%	6,266.6	65.8%	6,625.8	60.0%	7,261.1	61.5%
Retail banking .....	2,001.8	22.0%	19.3	4.4%	2,021.1	21.2%	2,538.4	23.0%	2,768.0	23.5%
Financial markets business <sup>(2)</sup> .....	817.0	9.0%	259.3	59.3%	1,076.3	11.3%	1,668.6	15.1%	1,563.6	13.2%
Others <sup>(3)</sup> .....	100.1	1.1%	55.9	12.8%	156.0	1.7%	217.5	1.9%	211.0	1.8%
<b>Total<sup>(4)</sup> .....</b>	<b>9,083.0</b>	<b>100.0%</b>	<b>437.0</b>	<b>100.0%</b>	<b>9,520.0</b>	<b>100.0%</b>	<b>11,050.3</b>	<b>100.0%</b>	<b>11,803.7</b>	<b>100.0%</b>

Notes:

- (1) In order to present our financial condition and results of operations on a comparable basis during the Track Record Period, we have added the corresponding statement of profit and loss and other comprehensive income line items (i) for the period from January 1, 2014 to December 22, 2014 included in Appendix IA to this prospectus and (ii) for the period from December 23, 2014 to December 31, 2014 included in Appendix IB to this prospectus.
- (2) Consists primarily of money market transactions, investment business, wealth management, debt securities underwriting and distribution, and bill discounting and rediscounting.
- (3) Consists primarily of income that is not directly attributable to any specific segment.

## SUMMARY

- (4) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net trading gains/(losses), net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business. As a result, the operating income set forth in this table is different from the income from our investment business set forth in the tables on pages 4 and 5 of this prospectus.

The following table sets forth our loans to customers by business line as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Corporate loans.....	71,329.8	64.2%	99,261.4	71.1%	110,633.0	67.1%
Personal loans.....	24,215.4	21.8%	28,373.1	20.3%	44,659.8	27.1%
Discounted bills.....	15,587.6	14.0%	11,965.0	8.6%	9,595.7	5.8%
<b>Total</b> .....	<b>111,132.8</b>	<b>100.0%</b>	<b>139,599.5</b>	<b>100.0%</b>	<b>164,888.5</b>	<b>100.0%</b>

### Investment Business

In managing our investment business, we mainly invest in Standard Investment Products and Non-standard Credit Assets. During the Track Record Period, our investment business experienced significant growth. As of December 31, 2014, 2015 and 2016, our investments in Standard Investment Products and Non-standard Credit Assets amounted to RMB36,588.8 million, RMB88,700.9 million and RMB182,972.1 million, respectively, accounting for 17.7%, 29.0% and 42.2%, respectively, of our total assets, as of the same dates. Among our total investments in Standard Investment Products and Non-standard Credit Assets as of December 31, 2014, 2015 and 2016, RMB20,656.0 million, RMB21,854.8 million and RMB36,539.3 million, respectively, were investments we made through our structured finance business line. Please also see “— Corporate Banking — Investment Banking — Structured Finance”.

The following table sets forth a breakdown of the total balance of our Standard Investment Products and Non-standard Credit Assets as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Standard Investment Products .....	15,932.8	43.5%	35,322.3	39.8%	73,840.1	40.4%
Non-standard Credit Assets						
Trust plans.....	14,467.5	39.6%	20,871.6	23.5%	27,494.5	15.0%
Asset management plans .....	2,715.2	7.4%	13,787.8	15.6%	35,230.1	19.3%
Wealth management products issued by other PRC						
commercial banks .....	1,720.1	4.7%	18,719.2	21.1%	34,287.7	18.7%
Investment funds and others .....	1,753.2	4.8%	—	—	12,119.7	6.6%
Sub-total.....	20,656.0	56.5%	53,378.6	60.2%	109,132.0	59.6%
<b>Total</b> .....	<b>36,588.8</b>	<b>100.0%</b>	<b>88,700.9</b>	<b>100.0%</b>	<b>182,972.1</b>	<b>100.0%</b>

## SUMMARY

The following table sets forth a breakdown of the total balance of our investments in Standard Investment Products and Non-standard Credit Assets as of the dates indicated.

	As of December 31,											
	2014			2015			2016					
	Amount	% of total	% of net assets	Amount	% of total	% of net assets	Amount	% of total	% of net assets	Amount	% of total	% of net assets
	(in millions of RMB, except percentages)											
Standard												
Investment												
Products	15,932.8	43.5%	56.9%	7.7%	35,322.3	39.8%	105.7%	11.5%	73,840.1	40.4%	208.0%	17.0%
Non-standard												
Credit												
Assets	20,656.0	56.5%	73.7%	10.0%	53,378.6	60.2%	159.7%	17.5%	109,132.0	59.6%	307.4%	25.2%
<b>Total</b>	<b>36,588.8</b>	<b>100.0%</b>	<b>130.6%</b>	<b>17.7%</b>	<b>88,700.9</b>	<b>100.0%</b>	<b>265.4%</b>	<b>29.0%</b>	<b>182,972.1</b>	<b>100.0%</b>	<b>515.4%</b>	<b>42.2%</b>

The following table sets forth a breakdown of our income from our investment business for the years indicated.

	For the year ended December 31,		
	2014	2015	2016
	(in millions of RMB)		
Interest income from financial investments <sup>(1)</sup>	729.5	1,896.4	3,964.7
Net trading income/(losses)	142.7	142.4	(71.7)
Net gains/(losses) from financial investments	40.5	(0.6)	9.1
<b>Total</b>	<b>912.7</b>	<b>2,038.2</b>	<b>3,902.1</b>

Note:

- (1) Consists of interest income from financial investments that is derived from our financial markets business segment without deducting any interest expenses, not including the interest income derived from structured finance that is classified into our corporate banking segment, which amounted to RMB1,468.5 million, RMB1,403.1 million and RMB2,117.2 million in 2014, 2015 and 2016, respectively, without deducting any interest expenses.

The following table sets forth a breakdown of our interest income from our Standard Investment Products and Non-standard Credit Assets and their respective average rate of return for the years indicated.

	For the year ended December 31,								
	2014			2015			2016		
	Amount	% of total	Average rate of return <sup>(1)</sup>	Amount	% of total	Average rate of return <sup>(1)</sup>	Amount	% of total	Average rate of return <sup>(1)</sup>
	(in millions of RMB, except percentages)								
Standard Investment									
Products	729.5	33.2%	4.65%	1,124.3	34.1%	4.59%	1,943.2	32.0%	3.56%
Non-standard Credit									
Assets <sup>(2)</sup>	1,468.5	66.8%	7.36%	2,175.2	65.9%	5.88%	4,138.7	68.0%	5.09%
<b>Total</b>	<b>2,198.0</b>	<b>100.0%</b>	<b>6.17%</b>	<b>3,299.5</b>	<b>100.0%</b>	<b>5.36%</b>	<b>6,081.9</b>	<b>100.0%</b>	<b>4.48%</b>

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## SUMMARY

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*Notes:*

- (1) Calculated by dividing (i) our income from the corresponding assets in the year, by (ii) the average balance of these assets at the beginning and the end of the year.
- (2) Consist of interest income from financial investments that is derived from our financial markets business segment without deducting any interest expenses, including the interest income derived from structured finance that is classified into our corporate banking segment, which amounted to RMB1,468.5 million, RMB1,403.1 million and RMB2,117.2 million in 2014, 2015 and 2016, respectively, without deducting any interest expenses.

In 2014, 2015 and 2016, our interest income from financial investments in Non-standard Credit Assets represented 66.8%, 65.9% and 68.0%, respectively, of our total income from our investment business, which remained relatively stable. The average rate of return for our investment in Standard Investment Products was 4.65%, 4.59% and 3.56% in 2014, 2015 and 2016, respectively, while the average rate of return for our investments in Non-standard Credit Assets was 7.36%, 5.88% and 5.09% in the same years. The continued decreases in our average rate of return of our investments were primarily due to (i) the impact of the consecutive interest rate cuts by the PBoC and (ii) market competition after the interest rate liberalization.

### OUR COMPETITIVE STRENGTHS

Our strengths include:

- Being the largest city commercial bank in Henan Province, we have been continuously benefiting from Henan Province's rapid economic development brought by China's further economic reform.
- Led by our visionary and ambitious management team, we built up a highly effective management structure and governance mechanism with reference to leading nationwide joint-stock commercial banks in China, laying a solid foundation for our rapid business development.
- Based on our in-depth understanding of internet finance, we have become an industry pioneer in product innovation through continuous investment in information technology.
- Our corporate banking, retail banking and rural financial services highly accord with Henan Province's economy.
- By offering diversified products, we have successfully achieved rapid expansion of financial markets business and improved our profitability.
- We have successfully improved and maintained good asset quality through our prudent risk management system with comprehensive enforcement.

For details of our strengths, please see "Business — Our Competitive Strengths" on page 169 to page 176 of this prospectus.

### OUR STRATEGIES

Our vision is to become a leading commercial bank in China. In line with our development strategies of "offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future business (傳統業務做特色, 創新業務找突破, 未來業務求領先)", we intend to further enhance our risk management and internal control systems, and continue in developing an efficient, convenient and innovative financial services

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## SUMMARY

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that cater to different customers' needs while keep on expanding the scope of our products and services, so that we can further enhance and promote market recognition of our brand name. We seek to achieve our vision through the following strategies:

- In line with our strategy of “rooted in Henan with country-wide radiation (深耕河南，輻射全國)”, we intend to further enhance our leading market position in Henan Province while observing opportunities to expand our business scope.
- In line with our strategy of “offering featured products in traditional banking business (傳統業務做特色)”, we intend to build a well-recognized brand name associated with quality products and services.
- In line with our strategy of “accomplishing break-through by innovation (創新業務找突破)”, we intend to develop comprehensive financial products and services to meet demands of specific target customer groups, so as to improve our profitability.
- In line with our strategy of “taking first-mover advantage in developing future business (未來業務求領先)”, we intend to further strengthen our IT capabilities to be better positioned as a “Bank of Future (未來銀行)” in dealing with future challenges.
- Strengthen and improve corporate governance, and optimize organizational structure with market-oriented philosophy.
- Continuously enhance the risk control system to improve asset quality.

For details of our strategies, please see “Business — Our Development Strategies” on pages 176 to 180 of this prospectus.

### 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' Reports set forth in Appendices IA and IB, which were prepared in accordance with IFRS, and the sections headed “Assets and Liabilities” and “Financial Information” of this prospectus.

The Directors of the Bank have prepared two sets of financial information included in the accountants' reports as set forth in Appendix IA and Appendix IB to this prospectus:

- the financial information of the business of the Bank (the “**Business**”) carried out by its predecessors, the Thirteen City Commercial Banks (the “**Predecessor Entities**”), for the period from January 1, 2014 to December 22, 2014 (the “**Predecessor Period**”), which includes the combined statement of financial position of the Business as at December 22, 2014, the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Business for the Predecessor Period (the “**Combined Financial Information**”), and is included in the accountants' report as set forth in the Appendix IA to this prospectus; and
- our financial information for the period from December 23, 2014 to December 31, 2014 and for the years ended December 31, 2015 and 2016 (the “**Post-Predecessor Period**”), which includes the consolidated statements of financial position as at December 31, 2014, 2015 and 2016, the consolidated statements of profit or loss and other comprehensive income, the

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## SUMMARY

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consolidated statements of changes in equity and the consolidated statements of cash flows for the Post-Predecessor Period (the “**Historical Financial Information**”), and is included in the accountants’ report as set forth in the Appendix IB to this prospectus.

Both the Combined Financial Information and the Historical Financial Information are prepared using accounting policies in accordance with IFRS. For more detail analysis, please see “Financial Information — Basis of presentation” on page 395 of this prospectus.

### **Selected Data from Combined/Consolidated Statement of Profit or Loss and Other Comprehensive Income**

The following table sets forth selected data from our combined/consolidated statement of profit or loss and other comprehensive income for the periods indicated.

	For the Period from January 1, 2014 to December 22, 2014	For the Period from December 23, 2014 to December 31, 2014	For the year ended December 31,		
			2014 <sup>(1)</sup>	2015	2016
(in millions of RMB, except for earnings per share)					
Net interest income.....	8,735.7	333.2	9,068.9	10,548.1	11,203.3
Net fee and commission income.....	92.3	4.4	96.7	134.9	449.1
Operating income.....	9,083.0	437.0	9,520.0	11,050.3	11,803.7
Profit/(loss) before tax.....	3,615.5	(41.8)	3,573.7	4,042.8	4,420.6
Profit/(loss) for the period/year.....	2,700.7	(32.4)	2,668.3	3,012.4	3,360.1
Earnings per share (in RMB per share)					
Basic and diluted.....				0.19	0.20

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*Note:*

- (1) In order to present our financial condition and results of operations on a comparable basis during the Track Record Period, we have added the corresponding statement of profit and loss and other comprehensive income line items (i) for the period from January 1, 2014 to December 22, 2014 included in Appendix IA to this prospectus and (ii) for the period from December 23, 2014 to December 31, 2014 included in Appendix IB to this prospectus.

For more details, please see “Financial Information — Selected Financial Data” on page 400 of this prospectus. In particular, for more details on the distribution of corporate loans by industry, please see “Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Corporate Loans by Industry” on page 349 of this prospectus. For details of the distribution of loans by loan classification, please see “Assets and Liabilities — Asset Quality of our Loan Portfolio — Distribution of Loans by Loan Classification” on page 364 of this prospectus. For details of our interest-earning assets and interest-bearing liabilities, please see “Financial Information — Results of Operations for the Years Ended December 31, 2014, 2015 and 2016 — Net Interest Income” on page 403 of this prospectus.

## SUMMARY

### Selected Data from Consolidated Statements of Financial Position

The following table sets forth selected data from our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2014	2015	2016
	(in millions of RMB)		
<b>Assets</b>			
Loans and advances to customers .....	106,449.8	133,876.1	158,547.3
Investment securities and other financial assets .....	36,612.7	88,724.8	182,996.0
Financial assets held under resale agreements.....	8,546.7	24,559.4	6,573.6
Cash and balances with central bank .....	40,787.5	43,270.7	49,370.9
Deposits with banks and other financial institutions .....	5,159.6	5,044.4	12,830.5
Placements with banks and other financial institutions .....	1.7	0.8	8,700.0
Other assets.....	9,389.8	10,414.5	14,053.1
<b>Total assets</b> .....	<b><u>206,947.8</u></b>	<b><u>305,890.7</u></b>	<b><u>433,071.4</u></b>
<b>Liabilities</b>			
Deposits from customers .....	164,595.8	205,370.4	245,352.8
Deposits from banks and other financial institutions.....	5,735.5	29,385.8	44,954.8
Debt securities issued.....	—	2,979.0	57,387.8
Financial assets sold under repurchase agreements.....	2,126.2	24,937.6	27,580.6
Placements from banks and other financial institutions .....	—	—	10,400.0
Borrowings from central bank .....	705.9	1,651.8	4,517.0
Income tax payable .....	459.5	718.3	748.8
Other liabilities .....	5,313.7	7,429.8	6,631.0
<b>Total liabilities</b> .....	<b><u>178,936.6</u></b>	<b><u>272,472.7</u></b>	<b><u>397,572.8</u></b>
<b>Total equity</b> .....	<b><u>28,011.2</u></b>	<b><u>33,418.0</u></b>	<b><u>35,498.6</u></b>
<b>Total liabilities and equity</b> .....	<b><u>206,947.8</u></b>	<b><u>305,890.7</u></b>	<b><u>433,071.4</u></b>

For details, please see “Assets and Liabilities” on page 346 of this prospectus.

### Selected Financial Ratios

The following table sets forth a summary of selected financial ratios for the periods indicated.

	For the year ended December 31,		
	2014	2015	2016
<b>Profitability indicators</b>			
Return on average assets <sup>(1)</sup> .....	1.35%	1.17%	0.91%
Return on average equity <sup>(2)</sup> .....	11.67%	9.81%	9.75%
Net interest spread <sup>(3)</sup> .....	4.71%	3.68%	3.07%
Net interest margin <sup>(4)</sup> .....	4.97%	3.96%	3.26%
Net fee and commission income to operating income.....	1.02%	1.22%	3.80%
Cost-to-income ratio <sup>(5)</sup> .....	35.77%	39.73%	41.21%

## SUMMARY

*Notes:*

- (1) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and the end of the period.
- (2) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and the end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income.

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

	Regulatory requirement	As of December 31,		
		2014	2015	2016
<b>Capital adequacy indicators</b>				
Core tier-one capital adequacy ratio <sup>(1)</sup> .....	≥7.5%	16.98%	14.77%	11.24%
Tier-one capital adequacy ratio <sup>(2)</sup> .....	≥8.5%	16.99%	14.77%	11.25%
Capital adequacy ratio <sup>(3)</sup> .....	≥10.5%	18.57%	16.14%	12.37%
Total equity to total assets.....	—	13.54%	10.92%	8.20%
<b>Asset quality indicators</b>				
Non-performing loan ratio <sup>(4)</sup> .....	≤5%	1.92%	1.95%	1.86%
Allowance coverage ratio <sup>(5)</sup> .....	≥150%	219.32%	210.48%	207.09%
Allowance to gross loan ratio <sup>(6)</sup> .....	≥2.5%	4.21%	4.10%	3.85%
<b>Other indicators</b>				
Loan-to-deposit ratio <sup>(7)</sup> .....	≤75%	67.52%	67.97%	67.20%

*Notes:*

- (1) 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, please see “Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards Over Capital Adequacy” and “Financial Information — Capital Resources — Capital Adequacy”.
- (2) 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, please 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 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, please 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 non-performing loans by gross loans to customers.
- (5) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans.
- (6) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans to customers.
- (7) Calculated by dividing total loans to customers by total deposits from customers. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio of no higher than 75%. Effective from October 1, 2015, the PRC Commercial Bank Law was amended and the 75% maximum loan-to-deposit ratio was repealed.



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## SUMMARY

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As of December 31, 2014, 2015 and 2016, our core tier-one capital adequacy ratio decreased from 16.98% to 14.77% and further decreased to 11.24%, our tier-one capital adequacy ratio decreased from 16.99% to 14.77% and further decreased to 11.25%, and capital adequacy ratio decreased from 18.57% to 16.14% and further decreased to 12.37%. Such decreases resulted primarily from the rapid growth of our total assets which increased our risk-weight assets and outpaced the speed at which we replenished our capital, including core tier-one capital and tier-one capital.

As of December 31, 2014, 2015 and 2016, our equity to total assets decreased from 13.54% to 10.92% and further decreased to 8.20%, primarily due to our strategy of extending loans and developing our structured finance business and our financial markets business during the Track Record Period, which resulted in rapid growth of our total assets, outpacing the growth of our equity in the same periods.

Our non-performing loan ratio increased from 1.92% as of December 31, 2014 to 1.95% as of December 31, 2015 primarily due to an increase in our non-performing personal loan ratio as a result of the deteriorating financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy, which was partially offset by a decrease in our non-performing corporate loan ratio from 2.63% as of December 31, 2014 to 2.13% as of December 31, 2015 as a result of (i) our efforts to recover existing non-performing corporate loans after the Reorganization, and (ii) our risk management measures to control loans to corporations in high risk industries. Our non-performing loan ratio decreased from 1.95% as of December 31, 2015 to 1.86% as of December 31, 2016 primarily due to a decrease in our non-performing corporate loan ratio from 2.13% as of December 31, 2015 to 1.78% as of December 31, 2016 as a result of (i) our efforts to recover amounts due under existing non-performing loans, (ii) our efforts to strengthen our risk management and (iii) our strategy to focus on developing quality customers with good credit records.

Our NPL ratio as of December 31, 2014, 2015 and 2016 was higher than the industry average as of the same dates mainly because during the Reorganization we inherited from the Thirteen City Commercial Banks certain assets and customers of substandard quality. After the Reorganization, the Bank has continuously made efforts to recover amounts due under existing non-performing loans, strengthen risk management measures, and develop quality customers with good credit records. However, the decrease in the non-performing corporate loan ratio was offset by a higher non-performing personal loan ratio as a result of the deteriorating financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy.

As of December 31, 2014, 2015 and 2016, our allowance coverage ratio decreased from 219.32% to 210.48% and further decreased to 207.09%. 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 RMB2,135.2 million, RMB2,719.2 million and RMB3,062.1 million as of December 31, 2014, 2015 and 2016, respectively. The decrease in our allowance coverage ratio is largely consistent with the overall banking industry. According to the CBRC, the allowance coverage ratio of the PRC banking industry was 232.1%, 181.2%, and 175.5% as of December 31, 2014, 2015 and 2016, respectively. Notwithstanding the foregoing, our allowance coverage ratios remained well above the regulatory requirement of 150%.

As of December 31, 2014, 2015 and 2016, our allowance to gross loan ratio decreased from 4.21% to 4.10% and further decreased to 3.85%. The decrease in our allowance to gross loan ratio was primarily due to a faster year-on-year increase in our gross loans and advances to customers in line with our business expansion, which amounted to RMB111,132.8 million, RMB139,599.5 million and RMB164,888.5 million as of December 31, 2014, 2015 and 2016, respectively, as compared to our allowance for impairment losses, which amounted to RMB4,683.0 million, RMB5,723.4 million and RMB6,341.2 million as of December 31, 2014, 2015 and 2016, respectively. Notwithstanding the foregoing, our allowance coverage ratio remained well above the regulatory requirement of 2.5%.

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Our loan-to-deposit ratios were 67.52%, 67.97%, and 67.20% as of December 31, 2014, 2015 and 2016, respectively, which remained relatively stable, at all times below the regulatory maximum ratio of 75%.

### APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Friday, June 30, 2017 through Tuesday, July 11, 2017, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving banks on behalf of the Bank and the refund monies, if any, will be returned to the applicants without interest on Tuesday, July 18, 2017. Investors should be aware that dealing in the H Shares on the Hong Kong Stock Exchange is expected to commence on Wednesday, July 19, 2017.

### OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 3,000,000,000 H Shares are newly issued in the Global Offering, (ii) the Over-allotment Option for the Global Offering is not exercised, and (iii) 19,625,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK\$2.42	Based on an Offer Price of HK\$2.53
Market capitalization of our Shares .....	HK\$47,492.5 million	HK\$49,651.3 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(1)</sup> .....	RMB2.00 <sup>(2)</sup> (HK\$2.29)	RMB2.01 <sup>(2)</sup> (HK\$2.30)

*Notes:*

- (1) The amount of unaudited pro forma adjusted consolidated net tangible assets per share is calculated in accordance with Rule 4.29 of the Listing Rules after the adjustments referred to in “Appendix III — Unaudited Pro Forma Financial Information”.
- (2) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.8750 to HK\$1.00, the exchange rate set by the PBoC prevailing on June 23, 2017. 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.

### THE GLOBAL OFFERING

The Global Offering comprises:

- (i) the Hong Kong Public Offering of 330,000,000 Offer Shares (subject to adjustment) in Hong Kong as described in “Structure of the Global Offering — The Hong Kong Public Offering”; and
- (ii) the International Offering of 2,970,000,000 Offer Shares (subject to adjustment and the Over-allotment Option) to QIBs in the United States pursuant 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 in H Shares under the International Offering, but may not do both.

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

### COMPLIANCE WITH THE CBRC NOTICE ON SHARE PLEDGES BY SHAREHOLDERS

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

- a shareholder who pledges his equity interests must notify the board of the bank in advance; in addition, 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 the share capital or voting rights in the bank, pledges his equity interests in the bank, he must make a filing to the board of directors of the bank prior to the pledge;
- upon the registration of a pledge of equity interests, a shareholder must provide the bank with information in relation to the pledge in a timely manner; and
- 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, will be “subject to restrictions” (the “**Voting Restrictions**”).

For the purpose of compliance with the Notice, we require our Shareholders (including holders of our H Shares) to notify us of their pledge of our Shares or make prior filings of any such pledge with us. For details of the Voting Restrictions including how to make such notifications or filings, please see “Supervision and Regulation — Ownership and Shareholder Restrictions — Restrictions on Shareholders” from pages 141 to 142 of this prospectus.

However, the Notice does not include guidance on what restrictions should be imposed or how they should be imposed. As of the Latest Practicable Date, there was no detailed implementation rule on whether the shareholders of H shares must make timely notice to PRC authorities in relation to the Notice. To comply with the Notice, we included voting restrictions in our Articles of Association, which were adopted at the shareholders’ general meeting on December 18, 2014, and later approved by the CBRC Henan Office on December 23, 2014. Please see “Risk Factors — We may be subject to more stringent regulatory requirements in the future and our Shareholders, including holders of our H Shares, may be subject to voting restrictions due to their pledge of our Shares” on page 49 of this prospectus.

### DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders at a general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, 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. Both current and new Shareholders are entitled to our accumulated retained earnings prior to the Listing. 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 shareholdings. Pursuant to PRC law and our Articles of Association, dividends may only be distributed from our distributable profits calculated in accordance with PRC GAAP or IFRS (or the accounting standards of the overseas jurisdictions where our Shares are listed), whichever is lower.

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## SUMMARY

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In 2014, Sanmenxia Bank, Xinxiang Bank, Shangqiu Bank, Luohe Bank and Zhumadian Bank declared cash dividends in an aggregated amount of RMB912.9 million to their respective shareholders for the year ended December 31, 2013. In 2015, we declared cash dividends in an aggregated amount of RMB47.2 million to the former shareholders of Luohe Bank, Xinyang Bank, Zhoukou Bank and Zhumadian Bank for the period from January 1, 2014 to June 30, 2014. In 2016, we declared cash dividends in an aggregated amount of RMB914.4 million to all our existing Shareholders for the year ended December 31, 2015. As of December 31, 2016, declared but unpaid dividends, namely, (i) dividends payable to shareholders that we were unable to contact, (ii) dividends payable to shareholders who did not timely claim the dividends, and (iii) dividends that are frozen according to court judgments, amounted to RMB229.0 million. Please also see “dividends payable” under “other liabilities” in “Appendix IB — Note 36”. We intend to pay declared but unpaid dividends after locating the relevant shareholders using our internal funds, in accordance with PRC laws and regulations.

On April 6, 2017, our Shareholders approved a dividend policy for fiscal years 2017 to 2019. Under the policy, the Board will propose to our Shareholders for approval the distribution of dividends of not less than 65% of distributable profits as of year end in each of the fiscal years 2017 to 2019, subject to compliance with our Articles of Association and relevant regulatory requirements. 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. For details, please see “Financial Information — Dividends” on page 440 of this prospectus.

### INFORMATION ON SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, Henan Investment Group Co., Ltd. (河南投資集團有限公司) (“**Henan Investment Group**”) directly held approximately 9.02% of our Shares and Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) (“**Yongcheng Coal and Electricity**”), directly and indirectly, held approximately 7.76% of our Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, Henan Investment Group and Yongcheng Coal and Electricity will directly and indirectly hold approximately 7.23% and 6.22% of our Shares, respectively (or approximately 7.01% and 6.03%, respectively, assuming that the Over-allotment Option is fully exercised).

As of the Latest Practicable Date, Henan Energy and Chemical Engineering Group Co., Ltd. (河南能源化工集團有限公司) (the holding company of Yongcheng Coal and Electricity) indirectly held approximately 8.32% of our Shares (including the Shares held by Yongcheng Coal and Electricity). Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, Henan Energy and Chemical Engineering Group Co., Ltd. will indirectly hold approximately 6.68% of our Shares (or approximately 6.47% assuming that the Over-allotment Option is fully exercised).

For details on our Substantial Shareholders, please see “Substantial Shareholders” on page 340 of this prospectus.

### MANAGEMENT OF OUR BRANCH NETWORK AND SUBSIDIARIES

#### Management of Our Branch Network

We have established a comprehensive bank-wide risk management structure based on business lines. Our top-down risk management model divides the risk management responsibilities by hierarchy and clearly defines the roles of the Board of Directors and its special committees, the Board of Supervisors and its supervision committee, the senior management and its special committees, the Risk Management Department and various other departments relating to risk management at our head office, the risk management departments at our branches and sub-branches, and the Audit Departments. For various types of risks and risk incidents, we have established clear and specific

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## SUMMARY

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procedures for reporting and communication between business operation departments and risk management departments to ensure an efficient and effective coordination for our risk management work arrangement. Please see “Risk Management — Risk Management Structure” on page 263 of this prospectus.

In addition, we rolled out an integrated financial reporting system covering our head office, branches and sub-branches in late 2014 and have updated it from time to time. Please see “Business — Information Technology — Real-time Financial Reporting System” on page 233 of this prospectus. We have been utilizing various information technology systems to timely monitor each type of bank-wide risk, such as credit risk, market risk, liquidity risk and legal and compliance risk. Please see “Risk Management — Risk Management Structure — Risk Management Systems for Timely Risk Monitoring” on page 271 of this prospectus.

### **Management of Our Village and Township Bank**

Each of our nine village and township banks is an independent legal entity regulated by the CBRC. In compliance with the requirements of the CBRC, we respect the independent operation of these village and township banks and strive to maintain their autonomous operation. Each of our village and township banks is different in terms of its geographic locations, target market, customer base, and product offerings, and they generally have smaller business scale and offer fewer products and services than our Bank. We believe an autonomous operation business model enables the village and township banks to leverage their local networks and customer relationships, and to become more responsive to changes in their markets.

Based on the foregoing, the Bank allows the nine village and township banks to make their own business decisions and maintain their own information technology, risk management, internal control and financial reporting systems. Although we do not directly participate in their business operations, we manage these village and township banks through providing overall strategic guidance, monitoring the implementation of operating policies and participating in their decision-making processes that are of significance in their development. In December 2014, we established a Village and Township Bank Management Department in our head office to better guide, assist and supervise them to achieve stable improvements in business and operational performance.

Please see “Business — Distribution Network — Village and Township Banks — Management of Our Village and Township Banks” on page 223 of this prospectus.

### **Management of Our Consumer Finance Company**

Our management of our consumer finance company is largely in line with our approach to managing our village and township banks. We guide and supervise the material aspects of the operations, finance, investments, compliance and human resources of our consumer finance company. Please see “Business — Distribution Network — Consumer Finance Company” on page 229 of this prospectus.

## **FINANCIAL RESTRUCTURING**

Pursuant to Yuzhengban Circular No. [2013] 100, the Notice of the General Office of Henan Province People’s Government on Circulating the Overall Plan for the Disposal of Non-performing Assets and Risks of Certain City Commercial Banks in Henan Province (Yuzhengban [2014] 95) (《河南省人民政府辦公廳關於印發河南省部分城商行不良資產及風險處置總體方案的通知》(豫政辦[2014]95號)) (“**Yuzhengban Circular No. [2014] 95**”), and the Implementation Rules for the Disposal of Historical Burdens of Certain City Commercial Banks in Henan Province (Yuchengshanggaiban [2014] 3 (《河南省部分城商行歷史包袱處置實施細則》(豫城商改辦[2014]3號)), we disposed of and

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## SUMMARY

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transferred historical burden with a gross amount of approximately RMB5,284.3 million (primarily including certain assets of Nanyang Bank, Kaifeng Commercial Bank, Puyang Bank, Anyang Bank and Zhoukou Bank, such as repossessed assets, investments, loans and intangible assets) prior to the Reorganization in 2014. In addition, in order to continue to dispose of historical assets and improve our assets quality, we, according to the guidance of Yuzhengban Circular No. [2013] 100, transferred and sold certain loans in 2015 and 2016 with a gross amount of RMB213.8 million and RMB8,623.8 million, respectively, which had been approved to be granted prior to the Reorganization. Our asset quality indicators would be worse than the existing ones as of December 31, 2014, 2015 and 2016 had these disposals of our historical burden and transfer of assets not taken place. Please see “Our History and Development — Financial Restructuring” on page 154 of this prospectus. Please also see “Risk Factors — We disposed of certain historical burden and certain loan assets during the Track Record Period and our asset quality indicators would be worse than the existing ones as of December 31, 2014, 2015 and 2016 had these disposals of our historical burden and transfer of assets not taken place” on page 34 of this prospectus.

### FUTURE PLANS AND USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering that we will receive, assuming an Offer Price of HK\$2.48 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$7,203.3 million, after the deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised. We intend to use the net proceeds of the Global Offering to strengthen our capital base to support the ongoing growth of our business. For more details on our plans for using the proceeds of the Global Offering, please see “Future Plans and Use of Proceeds” on page 445 of this prospectus.

### RECENT DEVELOPMENTS

Our Directors have confirmed that, from December 31, 2016 to the date of this prospectus, there was no material adverse change in our financial or business condition.

Further deterioration of the PRC economy may cause difficulties in the operations of our customers, which may impair the quality of our assets. For details of this risk, please see “Risk Factors — China’s economic, political and social conditions, government policies, as well as the global economy may continue to affect our business” on page 58 of this prospectus.

In recent years, the CBRC has issued multiple new rules to address irregularities in the PRC banking industry and financial sector to help manage their risks and better serve the real economy. In particular, on April 7, 2017, the CBRC issued Guidelines on Bank Risk Prevention and Controls (關於銀行業風險防控工作的指導意見) (Yinjian Fa [2017] No. 6) (“**Guideline No. 6**”), which included guidance to banks on improving their risk controls over credit risks, liquidity risks, risks associated with investments in debt securities, interbank business, wealth management business, and risks in relation to real estate industry, LGFV and internet finance. Guideline No. 6 also requires banks to take effective measures to timely identify and mitigate risks associated with their cross-border business and non-banking financial institutions. In addition, Guideline No. 6 provides guidance on measures to prevent certain risks, including designating senior management members to take responsibility for carrying out and enforcing risk management measures, and proactively conducting self-inspection and remedial measures, so that banks are able to maintain stable and healthy operations. Guideline No. 6 requires banks to submit the working reports in July 2017 and January 2018, respectively, showing semi-annual and annual working progress in enhancing internal risk

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## SUMMARY

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management and control measures. As of the Latest Practicable Date, we were still in the process of implementing changes in response to Guideline No. 6 and we were not aware of any material issue or incident that would materially affect our business, results of operations and financial condition as a result of Guideline No. 6.

On December 21, 2016, the MOF and SAT issued Circular on Value-added Tax Policies for Financial, Real Estate Development, Education Ancillary Service and Other Services (Cai Shui [2016] No.140) (關於明確金融房地產開發教育輔助服務等增值稅政策的通知) (財稅[2016]140號), supplementing a prior pilot program for transition from business tax to value-added tax beginning on May 1, 2016 for the financial industry, which may affect the value-added tax exposure of the financial investment and asset management businesses of financial institutions, including us. Further, on January 6, 2017, the MOF and SAT issued Supplemental Announcement on Value-added Tax Policies on Asset Management Products (《關於資管產品增值政策有關問題的補充通知》, Cai Shui [2017] No.2) to supplement the interpretations of such transition. As the basis for taxation and the applicable tax rate have been changed due to such transition, our results of operations have already been affected. Had the value-added tax policy been implemented on January 1, 2014, our net profit would have decreased by (i) no more than 1.6% in 2014, (ii) no more than 1.2% in 2015, and (iii) no more than 2.0% for the four months ended April 30, 2016 (the value-added tax policies were implemented on May 1, 2016), without taking into account, among other things, (i) some applicable tax-exemptions in our investment business and (ii) the deduction of the input value-added tax. Moreover, given relevant policies and rules have been implemented only recently, different interpretations may be imposed by local tax authorities. For details of how such transition will impact on our business operations, please see “Risk Factors — Risks relating to Our Business — The transition from business tax to value-added tax may adversely affect our financial condition and results of operations” on page 56 of this prospectus.

As of March 31, 2017, our total assets decreased to RMB401,826.2 million from RMB433,071.4 million as of December 31, 2016 primarily due to decreases in our available-for-sale financial assets and debt securities classified as receivables, mainly because we ceased certain interbank businesses pursuant to newly issued PBOC requirements regarding macro prudent assessment of financial institutions in early 2017, which required commercial banks to control the scales of certain credit assets. As of March 31, 2017, our total liabilities decreased to RMB365,574.1 million from RMB397,572.8 million as of December 31, 2016 primarily due to decreases in our debt securities issued, deposits from banks and other financial institutions and financial assets sold under repurchase agreements, mainly because we managed our scale of liabilities in accordance with the scale of assets.

For the three months ended March 31, 2017, our operating income decreased slightly to RMB2,772.3 million from RMB2,777.4 million for the same period in 2016 primarily because of the factor that the increase in our interest expenses outpaced the increase in our interest income for the three months ended March 31, 2017, primarily because (i) the average yield of our interest-earning assets decreased while the average cost of our interest-bearing liabilities increased in the same period; and (ii) we needed to set aside certain portion of interest income as value-added tax in the three months ended March 31, 2017 due to the new value-added tax policies while we recorded all of our interest income as revenue in the same period in 2016.

The financial information as of and for the three months ended March 31, 2017 as shown above was extracted from the unaudited condensed interim consolidated financial statements of the Group prepared by the Directors in accordance with IAS 34 “Interim Financial Reporting”, which were reviewed by KPMG, the reporting accountants of the Group, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

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## SUMMARY

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As of March 31, 2017, our non-performing loan ratio remained at 1.86%.

### RISK FACTORS

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

The major risks relating to an investment in our Shares are as follows: (i) if we are unable to effectively maintain the quality and growth of our assets and our overall business, our financial condition and results of operations may be materially and adversely affected; (ii) we disposed of certain historical burden and certain loan assets during the Track Record Period and our asset quality indicators would be worse than the existing ones as of December 31, 2014, 2015 and 2016 had these disposals of our historical burden and transfer of assets not taken place; (iii) we face concentration risks from our credit exposure to certain industries, borrowers and geographic regions; (iv) there are legal defects regarding some of our properties; (v) any adverse development in relation to our investments in Non-standard Credit Assets may materially and adversely affect our profitability and liquidity; (vi) we may be involved in legal and other disputes from time to time arising out of our operations; (vii) the use of our Chinese name in this prospectus and the use of it in the course of trade or business in Hong Kong, if any, may be challenged due to potential allegations of trademark infringement and passing off; (viii) further interest rate liberalization, the PBoC’s adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC’s banking industry may materially and adversely affect our results of operations; (ix) our allowance for impairment losses on loans may not be sufficient to cover the actual losses on our loan portfolio in the future; and (x) the collateral or guarantees securing our loans and advances to customers may not be sufficient or fully realizable.

For details of the risk factors relating to an investment in our Shares, please see “Risk Factors” on page 33 of this prospectus.

### LISTING EXPENSES

The listing expenses to be borne by us are estimated to be approximately RMB207.1 million (equivalent to approximately HK\$236.7 million). During the Track Record Period, we had incurred RMB4.0 million in listing expenses by December 31, 2016. After December 31, 2016, approximately RMB23.8 million is expected to be charged to our statements of profit or loss and other comprehensive income, and approximately RMB179.3 million is expected to be accounted for as a deduction from equity. These estimated listing expenses are for reference only, and the actual amounts may differ from the estimates. Our Directors do not expect these listing expenses to have a material adverse impact on our results of operation for the year ending December 31, 2017.



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## DEFINITIONS

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

“Anyang Bank”	Anyang Bank Co., Ltd. (安陽銀行股份有限公司), one of the predecessors of our Bank, established on July 19, 2002 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Application Form(s)”	<b>WHITE, YELLOW</b> and <b>GREEN</b> application form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	articles of association of the Bank, the version of which was adopted by the Shareholders at the first extraordinary general meeting of 2017 held on February 7, 2017 and was approved by CBRC Henan Office on March 23, 2017, which will become effective upon the Listing, as amended, supplemented or otherwise modified from time to time
“ATM(s)”	automated teller machine(s)
“Bank,” “our Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding subsidiaries
“Banking (Disclosure) Rules”	the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Banking Ordinance”	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Basel I”	the Basel Capital Accord promulgated in 1988
“Basel II”	the Revised Basel Capital Framework promulgated in June 2004
“Basel III”	the Revised Basel Capital Accord promulgated in December 2010
“Board” or “Board of Directors”	the board of Directors, as described in “Appendix V — Summary of Articles of Association”
“Board of Supervisors”	the board of Supervisors, as described in “Appendix V — Summary of Articles of Association”
“building ownership certificates”	building ownership certificates in the PRC (中華人民共和國房屋所有權證)

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## DEFINITIONS

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“Business Day(s)”	any day(s) (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“CAGR”	compound annual growth rate
“Capital Adequacy Measures”	the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法) promulgated by the CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, which was later abolished by the Capital Administrative Measures (Provisional) on January 1, 2013
“Capital Administrative Measures (Provisional)”	the Capital Administrative Measures for Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) promulgated by the CBRC on June 7, 2012 and effective on January 1, 2013
“CASBE”	the China Accounting Standards for Business Enterprises
“CBRC”	China Banking Regulatory Commission
“CBRC Henan Office”	China Banking Regulatory Commission Henan Office
“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
“Central China”	a geographical region that covers six provinces located in the central area of China, including Henan Province, Hubei Province, Anhui Province, Shanxi Province, Jiangxi Province and Hunan Province
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus only and, unless the context otherwise requires, excluding Hong Kong, Macau and Taiwan
“CIRC”	China Insurance Regulatory Commission

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## DEFINITIONS

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“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 MIIT, 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, revenue 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
“connected person(s)”	has the same meaning ascribed to it under Chapter 14A of the Listing Rules
“Core Indicators (Provisional)”	the Core Indicators for the Risk Management of Commercial Banks (Provisional) (商業銀行風險監管核心指標(試行)), as promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
“Corporate Governance Guidelines”	the Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引), as promulgated by the CBRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by our Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Euro”	the lawful currency of the euro zone

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## DEFINITIONS

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“Financial Advisor”	AMTD Asset Management Limited
“financial technology”	refers to any technology innovation, new applications, processes, products or business models in the financial sector, including innovations in financial literacy and education, retail banking, investment, and even like bitcoin, a digital currency created and held electronically
“foreign banking institutions”	representative offices and branches of foreign-owned and joint-venture banks and locally-established subsidiaries of foreign banks
“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
“Group”, “we” or “us”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches and all subsidiaries
“Hebi Bank”	Hebi Bank Co., Ltd. (鶴壁銀行股份有限公司), one of the predecessors of our Bank, established on November 7, 2006 in the PRC and dissolved and deregistered pursuant to the Reorganization
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	the ordinary shares to be issued by our Bank in Hong Kong under the Global Offering with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and to be listed and traded on the Hong Kong Stock Exchange
“Henan Government”	The People’s Government of Henan Province (河南省人民政府)
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKIAC”	Hong Kong International Arbitration Centre
“HKMA”	the Hong Kong Monetary Authority

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## DEFINITIONS

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“HKSCC”	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”	330,000,000 H Shares (subject to adjustment) offered in 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 relating thereto, as described in “Structure of the Global Offering — Hong Kong Public Offering”
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters listed in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering dated June 29, 2017 entered into by, among others, our Bank and the Hong Kong Underwriters, as described in “Underwriting — Hong Kong Underwriters”
“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”)
“independent third party(ies)”	a person or entity who is not considered a connected person of our Bank under the Listing Rules
“International Offer Shares”	2,970,000,000 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 pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in “Structure of the Global Offering”
“International Offering”	conditional placement by the International Purchasers of the International Offer Shares, as further described in “Structure of the Global Offering”
“International Purchasers”	the group of purchasers of the International Offering who are expected to enter into the International Purchase Agreement

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## DEFINITIONS

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“International Purchase Agreement”	the purchase agreement relating to the International Offering which is expected to be entered into by, among others, the International Purchasers and our Bank and the Selling Shareholders on or around the Price Determination Date
“Interim Provisions on the Standards for Medium and Small Enterprises”	the Interim Provisions on the Standards for Medium and Small Enterprises (中小企業標準暫行規定) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the State Development Planning Commission (國家發展計劃委員會), MOF and NBS in 2003, which was replaced by the Classification Standards of Small and Medium Enterprises on June 18, 2011
“IPC technology”	the micro loan investigation technology developed by International Project Consult GmbH, a German company
“Joint Bookrunners”	CLSA Limited, J.P. Morgan Securities (Asia Pacific) Limited, CCB International Capital Limited, CMB International Capital Limited, BOCOM International Securities Limited, GF Securities (Hong Kong) Brokerage Limited, Central China International Capital Limited, Haitong International Securities Company Limited, SPDB International Capital Limited and First Capital Securities Limited
“Joint Global Coordinators”	CLSA Limited, J.P. Morgan Securities (Asia Pacific) Limited, CCB International Capital Limited, CMB International Capital Limited, BOCOM International Securities Limited and GF Securities (Hong Kong) Brokerage Limited
“Joint Lead Managers”	CLSA Limited, J.P. Morgan Securities (Asia Pacific) Limited, CCB International Capital Limited, CMB International Capital Limited, BOCOM International Securities Limited, GF Securities (Hong Kong) Brokerage Limited, Central China International Capital Limited, Haitong International Securities Company Limited, SPDB International Capital Limited and First Capital Securities Limited
“Joint Sponsors”	CITIC CLSA Capital Markets Limited, J.P. Morgan Securities (Far East) Limited, CCB International Capital Limited and CMB International Capital Limited
“Kaifeng Commercial Bank”	Kaifeng Commercial Bank Co., Ltd. (開封市商業銀行股份有限公司), one of the predecessors of our Bank, established on August 25, 1998 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Large Commercial Banks”	Agriculture Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and Postal Savings Bank of China, collectively

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## DEFINITIONS

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“Large Enterprises”	the 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”	June 23, 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Leading Group Office”	a fully dedicated office established by the Leading Group of the Reform and Reorganization of Certain City Commercial Banks in Henan Province (河南省部分城市商業銀行改革重組工作領導小組), and responsible for providing instructions and guidance with respect to, among others, the business operations and management of the Thirteen City Commercial Banks during the Reorganization
“Linzhou Defeng County Bank”	Linzhou Defeng County Bank Co., Ltd. (林州德豐村鎮銀行股份有限公司), a joint stock company established on September 30, 2011 in the PRC and a subsidiary of our Bank
“Listing”	the listing of the H Shares on the Hong Kong Stock Exchange
“Listing Date”	the date on which dealings in the H Shares 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
“Luohe Bank”	Luohe Bank Co., Ltd. (漯河銀行股份有限公司), one of the predecessors of our Bank, established on September 20, 2002 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Lushi Defeng County Bank”	Lushi Defeng County Bank Co., Ltd. (盧氏德豐村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of our bank
“Macau”	the Macau Special Administrative Region of the PRC
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), 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

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## DEFINITIONS

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“medium enterprises”	the enterprises classified as medium enterprises under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises 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, revenue, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 20 employees or revenue of less than RMB3 million shall be classified as micro enterprises
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“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)
“Nanyang Bank”	Nanyang Bank Co., Ltd. (南陽銀行股份有限公司), one of the predecessors of our Bank, established on December 30, 1998 in the PRC and dissolved and deregistered pursuant to the Reorganization
“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., China 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)
“net capital”	core tier-one capital, additional tier-one capital and tier-two capital of a bank less corresponding capital deductions, in each case, as specified in the relevant CBRC regulations
“New Normal”	a term refers to a new phase that Chinese economy has entered that is different from the high-speed growth pattern exhibited in the past. The new economic phase features more sustainable, mid- to high-speed growth with higher efficiency and lower costs



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## DEFINITIONS

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“non-performing loans” or “NPL(s)”	for the purposes of this prospectus, is used synonymously with “impaired loans and advances” in Note 20 to the Accountants’ Reports in Appendices IA and IB to this prospectus
“non-performing loan ratio” or “NPL ratio”	the percentage ratio calculated by dividing non-performing loans by total loans
“Non-standard Credit Assets”	credit assets that are not traded on the interbank markets or stock exchanges, which for the purpose of this prospectus represents our investment in trust plans, asset management plans and wealth management products issued by other commercial banks, and other investments, such as investment entrusted to third-party financial institutions and investment funds
“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 Hong Kong dollar offer price per H Share (exclusive of any brokerage fee, SFC transaction levy and the Hong Kong Stock Exchange trading fee) at which the H Shares are to be subscribed and issued pursuant to the Global Offering, to be determined as described in “Structure of the Global Offering”
“Offer Shares”	the H Shares offered in the Global Offering and, where relevant, any additional H Shares issued 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 Purchasers exercisable by the Joint Global Coordinators (on behalf of the International Purchasers) pursuant to the International Purchase Agreement, 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 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 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

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## DEFINITIONS

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“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 Standing Committee of the 10th National People’s Congress on October 27, 2005 and became effective on January 1, 2006, 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 on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
“PRC PBoC Law”	the Law of the People’s Bank of China of the PRC (中華人民共和國人民銀行法), which was promulgated by the 3rd session of the Standing Committee 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
“Price Determination Agreement”	the agreement to be entered into among our Bank (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around July 12, 2017, on which the Offer Price is to be fixed by an agreement between our Bank (for ourselves and the Selling Shareholders) and the Joint Global Coordinators (on behalf of the Underwriters) for purpose of the Global Offering
“Puyang Bank”	Puyang Bank Co., Ltd. (濮陽銀行股份有限公司), one of the predecessors of our Bank, established on December 31, 2006 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Puyang Zhongyuan County Bank”	Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), a joint stock company established in the PRC on March 16, 2012 and a subsidiary of our Bank
“Qixian Zhongyuan County Bank”	Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), a joint stock company established in the PRC on December 23, 2010 and a subsidiary of our Bank
“QIBs”	qualified institutional buyers as defined in Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act

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## DEFINITIONS

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“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 the CBRC, the PRC GAAP and/or IFRS
“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 (商業銀行與內部人和股東關聯交易管理辦法) promulgated by the CBRC, Accounting Standards for Business Enterprises (企業會計準則) promulgated by the MOF, and/or IFRS
“Reorganization”	the reorganization of the Thirteen City Commercial Banks completed in December 2014, pursuant to which each of the Thirteen City Commercial Banks was dissolved and deregistered, and all assets (including creditors’ rights) and liabilities of each of the Thirteen City Commercial Banks were assumed by our Bank upon the completion of the reorganization
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“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 300,000,000 H Shares and, where relevant, any additional H Shares which may be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option. See “Share Capital — Transfer and Sale of State-owned Shares”. The Selling Shareholders will convert an equal number of Domestic Shares held by them to be offered for sale as the Sale Shares, subject to any adjustments as provided in “Structure of the Global Offering”. References to “Sale Shares” include, where the context requires, the Domestic Shares from which the Sale Shares are converted
“Sanmenxia Bank”	Sanmenxia Bank Co., Ltd. (三門峽銀行股份有限公司), one of the predecessors of our Bank, established on April 10, 2002 in the PRC and dissolved and deregistered pursuant to the Reorganization
“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)

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## DEFINITIONS

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“Henan SASAC”	State-owned Assets Supervision and Administration Commission of Henan Provincial People’s Government (河南省人民政府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”	the state-owned shareholders, collectively, who are required to reduce their shareholding pursuant to the relevant PRC regulations relating to disposal of state-owned shares, as further described in “Information about this Prospectus and the Global Offering — Selling Shareholders” of this prospectus
“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
“Shares”	ordinary shares in the share capital of our Bank with a nominal value of RMB1.00 each
“Shareholder(s)”	the holder(s) of the Shares
“Shangqiu Bank”	Shangqiu Bank Co., Ltd. (商丘銀行股份有限公司), one of the predecessors of our Bank, established on September 30, 2006 in the PRC and dissolved and deregistered pursuant to the Reorganization
“SHIBOR”	the Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Center
“Standard Investment Products”	debt securities issued by the PRC government, PRC policy banks, PRC commercial banks and other financial institutions and corporate issuers
“small enterprises”	the enterprises classified as small enterprises based on the number of their employees, revenue and total assets under the Classification Standards of Small and Medium Enterprises
“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”	CLSA Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Suiping Hengsheng County Bank”	Suiping Hengsheng County Bank Co., Ltd. (遂平恒生村鎮銀行股份有限公司), a joint stock company established in the PRC on March 12, 2012 and a subsidiary of our bank
“Supervisor(s)”	the supervisor(s) of the Bank
“Thirteen City Commercial Banks”	the thirteen city commercial banks located in Henan Province, the PRC, which were predecessors of our Bank, namely Anyang Bank, Hebi Bank, Kaifeng Commercial Bank, Luohe Bank, Nanyang Bank, Puyang Bank, Sanmenxia Bank, Shangqiu Bank, Xinxiang Bank, Xinyang Bank, Xuchang Bank, Zhoukou Bank and Zhumadian Bank
“Track Record Period”	the three years ended December 31, 2014, 2015 and 2016
“Underwriters”	collectively, the Hong Kong Underwriters and the International Purchasers
“Underwriting Agreements”	collectively, the Hong Kong Underwriting Agreement and the International Purchase Agreement
“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
“VTM(s)”	the abbreviation of Video Teller Machine(s), the mechanical and electrical integration equipment which handle some counter business through the remote video mode, and enables users to handle the business through dialogue communication with back-office bank customer services
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xiangcheng Huipu County Bank”	Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司), a joint stock company established on October 27, 2011 in the PRC and a subsidiary of our Bank
“Xinxiang Bank”	Xinxiang Bank Co., Ltd. (新鄉銀行股份有限公司), one of the predecessors of our Bank, established on August 19, 1997 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Xinxiang Xinxing County Bank”	Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行股份有限公司), a joint stock company established on March 23, 2010 in the PRC and a subsidiary of our Bank

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## DEFINITIONS

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“Xinyang Bank”	Xinyang Bank Co., Ltd. (信陽銀行股份有限公司), one of the predecessors of our Bank, established on December 10, 2002 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Xinyang Pingqiao Zhongyuan County Bank”	Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), a joint stock company established on December 13, 2010 in the PRC and a subsidiary of our Bank
“Xiping Caifu County Bank”	Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), a joint stock company established on December 17, 2009 in the PRC and a subsidiary of our Bank
“Xuchang Bank”	Xuchang Bank Co., Ltd. (許昌銀行股份有限公司), one of the predecessors of our Bank, established on October 16, 2005 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Zhoukou Bank”	Zhoukou Bank Co., Ltd. (周口銀行股份有限公司), one of the predecessors of our Bank, established on September 3, 2009 in the PRC and dissolved and deregistered pursuant to the Reorganization
“Zhumadian Bank”	Zhumadian Bank Co., Ltd. (駐馬店銀行股份有限公司), one of the predecessors of our Bank, established on May 22, 2002 in the PRC and dissolved and deregistered pursuant to the Reorganization

*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)”, “core connected person(s)” and “substantial shareholder(s)” shall have the meanings ascribed to them under the Listing Rules.*

*For the ease of reference, in this prospectus, unless otherwise indicated, we use the terms “gross 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.*

*In order to provide a better presentation of our financial condition and results of operations during the Track Record Period, we have added up the corresponding statement of profit and loss and other comprehensive income line items for the period from January 1, 2014 to December 22, 2014 in the Combined Financial Information and that for the period from December 23, 2014 to December 31, 2014 in the Historical Financial Information for purpose of presenting statement of profit and loss and other comprehensive income figures for the year ended December 31, 2014 in this section and other sections of this prospectus.*

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## FORWARD-LOOKING STATEMENTS

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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 Henan Province or the PRC and any changes thereto;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- 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.

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## RISK FACTORS

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*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 Share. 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 Share 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 and growth of our assets and our overall business, our financial condition and results of operations may be materially and adversely affected.**

Our gross loans and advances to customers amounted to RMB111,132.8 million, RMB139,599.5 million and RMB164,888.5 million as of December 31, 2014, 2015 and 2016, respectively. As of the same dates, our non-performing loans amounted to RMB2,135.2 million, RMB2,719.2 million and RMB3,062.1 million, respectively, and our NPL ratio was 1.92%, 1.95% and 1.86%, respectively. Our non-performing loan ratio increased from 1.92% as of December 31, 2014 to 1.95% as of December 31, 2015 primarily due to an increase in our non-performing personal loan ratio mainly as a result of deteriorated financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy, which was partially offset by a decrease in our non-performing corporate loan ratio from 2.63% as of December 31, 2014 to 2.13% as of December 31, 2015 as a result of (i) our efforts to recover existing non-performing corporate loans after the Reorganization, (ii) our strict risk management measures to control loans to corporations in high risk industries. Our non-performing loan ratio decreased from 1.95% as of December 31, 2015 to 1.86% as of December 31, 2016 primarily due to a decrease in our non-performing corporate loan ratio from 2.13% as of December 31, 2015 to 1.78% as of December 31, 2016 as a result of (i) our continued efforts to recover existing non-performing loans and (ii) our continued efforts to strengthen our risk management and (iii) our strategy to focus on developing quality customers with good credit records. For details on the asset quality of our loan portfolio, please see “Assets and Liabilities — Assets — Loans to Customers — Asset Quality of Our Loan Portfolio”. We cannot assure you that our non-performing loans and NPL ratios will not continue to increase in the future.

Our financial condition and results of operations will be affected by our ability to maintain or improve the quality of our assets, including our loans to customers and investments in Non-standard Credit Assets. We cannot assure you that the quality of our assets, including our loans to customers and investments in Non-standard Credit Assets, will not deteriorate. Deterioration in the overall quality of our assets, including our loans to customers and investments in Non-standard Credit Assets, may occur due to a variety of reasons, including a slowdown of China’s and Henan Province’s economy, other adverse macroeconomic developments, the mass fluctuation in capital markets, an outbreak of disasters or major accidents in China and other regions. In addition, as we aspire to provide high-quality rural financial services to customers in county and rural areas, we are subject to risks inherent to rural financial services, such as low production efficiency, vulnerability to natural disasters, long production cycle and lack of insurance system against catastrophic events, any of which may materially and adversely affect the business and financial condition of our agriculture-related loan customers, which may thereby affect their capacity to repay their loans to our Bank. All of these may adversely affect the businesses, operations, or liquidity of our customers, counterparties or ultimate financing parties of our business and we may not be able to realize the value of our collateral,



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## RISK FACTORS

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or guarantees securing the assets. In particular, any significant 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, profitability, and results of operations.

In addition, we may not be able to successfully maintain the growth of our assets and business, including our loans to customers and investments in Non-standard Credit Assets, if we fail to offer new products to attract new customers, improve our marketing efforts, or expand our sales channels. The growth of our overall business may also be affected by the general state of PRC economy and macroeconomic factors affecting the PRC or regions in which we operate, such as the inflation rate, growth in GDP, changes in banking and financial laws or regulations, changes in the implementation of macroeconomic regulations, market liquidity and changes in credit policy, changes in loans demand, and the progress of financial reforms and liberalization of interest rates. Moreover, maintaining the growth of our business will require substantial managerial and operational resources and there is no assurances that we will be able to retain and attract qualified personnel to support the growth of our assets in a timely manner. We may also need additional capital in the future and we may not be able to obtain such capital on acceptable terms, or at all, which may result in a lower or non-compliant capital adequacy ratio. Also, the maintenance of our growth 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. Please 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 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 operations.

**We disposed of certain historical burden and certain loan assets during the Track Record Period and our asset quality indicators would be worse than the existing ones as of December 31, 2014, 2015 and 2016 had these disposals of our historical burden and transfer of assets not taken place.**

We disposed of certain historical burden with a gross amount of approximately RMB5,284.3 million (primarily including certain assets of Nanyang Bank, Kaifeng Commercial Bank, Zhoukou Bank, Puyang Bank and Anyang Bank, such as repossessed assets, investments, loans and intangible assets) prior to the Reorganization in 2014. Our disposals were undertaken in the forms including (i) the former shareholders of these five city commercial banks bearing approximately RMB493.0 million by way of reducing net assets of the respective banks, and (ii) Henan Investment Group Co., Ltd. acquiring the remaining historical burden at a consideration of approximately RMB4,791.3 million. Upon completion of such disposals of historical burden, they were derecognized from the balance sheets of these five city commercial banks prior to the Reorganization. In addition, in order to continue to dispose of historical assets and improve our assets quality, we, according to the guidance of the Overall Plan for the Reform and Reorganization of Certain City Commercial Banks in Henan Province (Yuzhengban [2013] 100) (《河南省人民政府辦公廳關於印發河南省部分城市商業銀行改革重組工作總體方案的通知》(豫政辦[2013]100號)) issued by Henan Government, transferred and sold certain loans in 2015 and 2016 with a gross amount of RMB213.8 million and RMB8,623.8 million, respectively, which had been approved to be granted prior to the Reorganization, respectively. Please see “Our History and Development — Financial Restructuring”. Our asset quality indicators would be worse than the existing ones as of December 31, 2014, 2015 and 2016 had these disposals of our historical burden and transfer of assets not taken place. For the existing asset quality indicators as of December 31, 2014, 2015 and 2016, please see “Financial Information — Selected Financial Data” in this prospectus. In the future, we may not be able to dispose of or transfer our assets or loans in a similar scale or on similar terms. Investors should consider these disposals and transfers of assets

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## RISK FACTORS

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before making investment decisions relating to us. For risks relating to the quality of our assets, please also see “ — If we are unable to effectively maintain the quality and growth of our assets and our overall business, our financial condition and results of operations may be materially and adversely affected” in this section.

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

As of December 31, 2014, 2015 and 2016, the balance of our non-performing loans was RMB2,135.2 million, RMB2,719.2 million and RMB3,062.1 million, respectively. Our allowance for impairment losses on gross loans to customers was RMB4,683.0 million, RMB5,723.4 million and RMB6,341.2 million as of December 31, 2014, 2015 and 2016 respectively, and our allowance coverage ratio was 219.32%, 210.48% and 207.09%, respectively. Our allowance to total loan ratio was 4.21%, 4.10% and 3.85%, respectively, as of the same dates. The allowance for impairment losses amount 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 assessments and expectations on these factors may differ from their future developments. In addition, our allowance for impairment losses may increase due to future regulatory and accounting policy changes, 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, prospects, financial condition and results of operations.

**We face concentration risks from our credit exposure to certain industries, borrowers and geographic regions.**

As of December 31, 2014, 2015 and 2016, our corporate loans represented 64.2%, 71.1% and 67.1% of our total loans to customers, respectively. As of December 31, 2016, our loans to the manufacturing industry and the wholesale and retail industry, which were ranked as the top two industries among the industries from which our corporate loan customers are usually derived, represented 30.6% and 19.4% of our total corporate loans, respectively, and non-performing loans to these industries accounted for 50.5% and 22.3% of our total non-performing corporate loans, respectively. Additionally, as most of our corporate loan customers in the manufacturing and the wholesale and retail industries are small and micro enterprises, they may be more vulnerable to the impact from economic downturn compared to enterprises in other industries.

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

As of December 31, 2016, loans to our ten largest single borrowers totaled RMB5,448.5 million, representing 14.4% of our regulatory capital, which were all classified as normal. As of the same date, our credit exposure to our ten largest group customers totaled RMB8,423.7 million, representing 22.2% 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 operations could be materially and adversely affected.

Furthermore, our business and operations are primarily concentrated in Henan Province. As of December 31, 2016, all of our loans to customers and our deposits from customers were originated from our outlets located in Henan Province. Most of our businesses and operations will remain in

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## RISK FACTORS

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Henan Province in the foreseeable future. Therefore, our continued growth depends to a large extent on the continued growth of the Henan Province economy, and we are exposed to risks arising from concentration of loans extended in Henan Province in terms of distribution of customers and geographical coverage. Any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Henan Province, or any material adverse change in financial condition of our customers in this region or any party to whom they provide guarantees, may materially and adversely affect our business, financial condition and results of operations.

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

As of December 31, 2016, 38.8%, 15.2% and 41.9% of our total loans to customers were secured by collaterals, pledges, and guarantees, respectively. The collateral and pledges securing our loans to customers primarily comprised land use rights, buildings and houses, machineries and equipment, equity securities, debt securities, 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 assets securing our loans to levels below the outstanding principal balance of said loans. In addition, we cannot assure you that our assessment of the value 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 or pledges from the borrowers and there is no assurance that we would be able to obtain the said collateral on satisfactory terms or at all. Reduction of our collateral value or our inability to obtain additional collateral or pledges may result in additional allowance for loan impairment, which may materially and adversely affect our business, financial condition, and results of operations.

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 in value 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 the 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 operations may be materially and adversely affected.

As of December 31, 2016, unsecured loans accounted for 4.1% of our total loans 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 the loans not secured by collaterals or pledges, we are exposed to a relatively high risk of losing the entire outstanding amount under such loans, which may adversely affect our business, financial condition, and results of operations.

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## RISK FACTORS

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**Any significant or protracted downturn in, or change in national policies affecting the real estate market in the PRC may have a material adverse effect on our business, asset quality, financial condition and results of operations.**

We are exposed to risks associated with the PRC real estate market, especially from corporate loans to the real estate industry, personal residential loans and other loans secured by real estate. As of December 31, 2014, 2015 and 2016, our loans to corporate borrowers in the real estate industry represented 10.0%, 8.7% and 8.7%, respectively, of our total corporate loans. As of the same dates, our residential mortgage loans represented 17.0%, 22.4% and 42.3%, respectively, of our total personal loans.

The PRC government has imposed, and may continue to impose macroeconomic policies to regulate the real estate market including imposing business taxes on the transfer of residential apartments within two or five years, as the case may be, after the purchase of the apartments, levying mandatory personal income tax for second-hand residential apartments transactions, imposing qualification requirements for homebuyers and borrowers of residential mortgage loans, and setting the minimum down payments and mortgage rates for the purchase of residential properties. In October 2016, according to a notice posted on the local government's website stated that residents of Zhengzhou who already own two properties and non-residents who already own one property will only be able to buy properties less than 180 square meters. In December 2016, on top of the tightened restrictions mentioned above, Zhengzhou government announced Notice on Further Strengthening Regulations and Control of Real Estate Industry in Zhengzhou (《鄭州市人民政府辦公廳關於進一步加強房地產調控工作的通知》) which sets a higher standard for non-Zhengzhou residents to purchase homes in the city and sets tightened restrictions on the sources of the homes larger than 180 square meters. For details, please see "Supervision and Regulation — Regulation on Principal Commercial Banking Activities". These measures may slow down the growth of our loans to, and negatively affect the financial condition, liquidity and repayment capabilities of our customers in the real estate industry. These measures may also reduce the demand for residential mortgage loans in the PRC. In addition, any significant or continued decline in property prices in the PRC may have a material adverse effect on the asset quality of our corporate loans to customers in the real estate industry and personal residential mortgage loans. If the real estate market in the PRC experiences a recession or a prolonged period of downturn, the value of the real estate as collateral for our loans may decrease to a level insufficient to cover the principal of and interest on the loans, which could therefore prevent us from recovering all or part of principal and interest if the borrower defaults. The fact that we have taken measures to manage the risks cannot be an assurance to you that such measures will be effective or sufficient to protect us against the foregoing adverse effects.

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

As of December 31, 2014, 2015 and 2016, our loans to small and micro enterprises represented 60.7%, 61.9% and 67.6%, respectively, of our total corporate loans. Small and micro enterprises are generally more vulnerable to macroeconomic fluctuations, as they may lack the financial, management or other resources necessary to withstand the adverse effects brought by an economic slowdown or changes in the regulatory environment compared with larger enterprises. In addition, subject to limitations of due diligence by its nature, we may not be able to obtain all the necessary information regarding small and micro enterprises for us to fully assess their credit risk. As of December 31, 2014, 2015 and 2016, our NPL ratio of small and micro enterprises loans was 2.55%, 2.51% and 2.42%, respectively. Our NPL 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 operations.

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## RISK FACTORS

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**Our asset quality, financial condition or results of operations 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 extend loans to local government financing vehicles. Local government financing vehicles refer to economic entities with independent legal capacity established by local governments as well as other departments and institutions through fiscal allocation or injection of assets such as land and equity, responsible for financing government-sponsored projects. Local government financing vehicles typically use loan proceeds to make investments in infrastructure or industrial zone construction, renovation of old districts, or development of public interest projects, and repay us with operating cash flows generated from relevant projects and the local government budget. As of December 31, 2016, our loans to local government financing vehicles amounted to RMB357.6 million, representing 0.3% of our loans to corporate banking customers and 0.2% of our total loans. In addition, as of December 31, 2016, none of our loans to local government financing vehicles was classified as non-performing. For details on how we manage risks related to local government financing vehicles, please see “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Portfolio Management — Credit Risk Management for Local Government Financing Vehicles”.

Apart from granting loans to local government financing vehicles, we also provide financing to local government financing vehicles through our investments in debt securities issued by such local government financing vehicles, trust plans, or asset management plans, utilizing funds at our disposal or proceeds from offering both principal protected and non-principal protected wealth management products. As of December 31, 2014, 2015 and 2016, our total credit balance to local government financing vehicles amounted to RMB2,775.0 million, RMB3,010.0 million and RMB3,848.8 million, respectively. Such increase was primarily due to our expansion in the financing to local government financing vehicles as we followed the relevant national policy of encouraging investments in infrastructure construction.

Pursuant to applicable PRC regulations, unless otherwise provided by laws and the State Council, it is not permitted for local governments and their departments, organizations, and institutions funded primarily by fiscal budget to, directly or indirectly, provide guarantees for the financing activities of local government financing vehicles through utilizing fiscal income or state-owned assets or otherwise. 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, which may not always be available due to the government’s liquidity, budgeting priorities, and other considerations.

A macroeconomic slowdown, unfavorable changes in governmental policies, the deterioration in the financial condition of local governments, significant decline in property prices or other external 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 operations. Since 2010, the State Council, CBRC and PBoC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines, and other regulatory measures that instruct PRC banks and other financial institutions to strengthen their risk management measures regarding loans to local government financing vehicles. For further details, please see “Supervision and Regulation — Regulation 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

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exposure loans to local government financing vehicles, including implementing credit exposure limits on our loans to local government financing vehicles, strengthening our credit extension and credit monitoring mechanism, and establishing risk alert systems for loans to local government financing vehicles. For details of these measures, see “Risk Management — Credit Risk Management”. However, there is no assurance that measures taken by us are sufficient to protect ourselves against loss in connection with default by local government financing vehicle borrowers, which may in turn materially and adversely affect our asset quality, financial condition and results of operation.

### **There are legal defects regarding some of our properties.**

As of the Latest Practicable Date, we owned 616 properties with an aggregate GFA of approximately 626,280.1 square meters, which we mainly used as outlets and offices.

We have obtained building ownership certificates and land use right certificates for 220 properties with an aggregate GFA of approximately 289,374.5 square meters. For 50 properties with an aggregate GFA of approximately 54,659.6 square meters, we have obtained the relevant building ownership certificates and land use right certificates but such land was allocated to us. For 180 properties with an aggregate GFA of approximately 88,313.8 square meters, we have obtained the building ownership certificates, but have not obtained the land right use certificates for the land on which such building were erected. For 12 properties with an aggregate GFA of approximately 39,554.4 square meters, we have been granted the land use right certificates, but we have not obtained the building ownership certificates. For two properties with an aggregate GFA of approximately 144.0 square meters, we have obtained the land use right certificates through allocation, but we have not obtained the building ownership certificates. For 152 properties with an aggregate GFA of approximately 154,233.9 square meters, we have not obtained the relevant building ownership certificates for these properties or land use right certificates for the land occupied by such properties. As of the Latest Practicable Date, the aggregate GFA of properties with defective titles accounted for approximately 53.79% of the properties owned by us. For details of our properties, please see “Business — Properties”. We are committed to using our best efforts to complete relevant procedures for obtaining relevant land use right certificates and/or building ownership certificates. However, we may not be able to obtain all these title certificates. There is no assurance that our ownership rights would not be adversely affected in respect of properties for which we were unable to obtain the relevant title certificates. 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 555 properties with an aggregate GFA of approximately 237,936.3 square meters, which we mainly use as business premises. For 401 properties with an aggregate GFA of approximately 167,366.3 square meters, the lessors have not obtained the relevant building ownership certificates or the consent letter from the owners to authorize the lessors to lease or sublease the specific properties. As a result, the validity of such leases may be subject to legal challenge. In addition, there is no assurance 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. Further, as we only completed the relevant lease registration procedures for 158 leased properties, we are subject to the risks of being ordered by relevant authorities to reapply for the relevant procedures and being imposed with the penalty in case of failures to do so. For details of our properties including leased properties, please see “Business — Properties”.

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**Any adverse development in relation to our investments in Non-standard Credit Assets may materially and adversely affect our profitability and liquidity.**

During the Track Record Period, we made investments in Non-standard Credit Assets, primarily including investments in trust plans, asset management plans, wealth management products issued by other Chinese commercial banks and securities investment funds. As of December 31, 2014, 2015 and 2016, our investments in Non-standard Credit Assets amounted to RMB20,656.0 million, RMB53,378.6 million and RMB109,132.0 million, respectively, accounting for 10.0%, 17.5% and 25.2%, respectively, of our total assets as of the same dates. For the years ended December 31, 2014, 2015 and 2016, interest income generated from our investments in Non-standard Credit Assets amounted to RMB1,468.5 million, RMB2,175.2 million and RMB4,138.7 million, respectively, representing 11.5%, 14.0% and 24.3%, respectively, of our total interest income for the same periods. For details of our Non-standard Credit Assets, please see “Business — Our Principal Business Activities — Financial Markets Business — Investment Business — Non-standard Credit Assets”.

Investing in Non-standard Credit Assets contains certain risks. Although we have taken a variety of risk management measures, there is no assurance that these measures could fully protect us from credit risks and liquidity risks in relation to investments in Non-standard Credit Assets. For details of the risk management measures we adopted for our investments in these assets, please see “Risk Management — Credit Risk Management — Credit Risk Management for our Financial Markets Business — Credit Risk Management for Investments in Standard Investment Products and Non-standard Credit Assets”. For example, we may not be able to receive repayment of principal of, and returns on these Non-standard Credit Assets due to material and adverse changes to the financial condition of the relevant trust companies, securities companies or the ultimate borrowers. In addition, we may not be able to rely on the guarantees and collateral or realize the value of the collateral provided by the ultimate borrowers, as such guarantees and collateral are provided to the trust companies, asset management companies, securities companies and other financial institutions, instead of us. Furthermore, if the agreed-upon return rates of our investments in Non-standard Credit Assets 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 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, our ability to dispose of relevant investments or realize value of relevant investments before their maturity is limited. All above mentioned factors may materially and adversely affect our business, financial condition and results of operations.

In addition, as of December 31, 2016, our investments in trust plans, asset management plans and wealth management products with our top five counterparties represented 94.5%, 67.5% and 91.8%, respectively, of our total investments in the respective type of our Non-standard Credit Assets as of the same date. Any deterioration in the financial condition or results of operations of these counterparties may undermine the quality of our existing investments in Non-standard Credit Assets, which in turn could materially and adversely affect our business, financial condition and results of operations.

Furthermore, although PRC regulatory authorities do not currently prohibit 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 in relation 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 operations.

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### **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 both our corporate banking customers and retail banking customers. For the years ended December 31, 2014, 2015 and 2016, the total amount of the wealth management products issued by us were RMB12,561.9 million, RMB18,758.4 million and RMB75,612.2 million, respectively.

We invested the proceeds from our wealth management products mainly in money market instruments, deposits with banks, negotiated deposits, debt securities, trust plans, asset management plans and contractual funds. Compared to money market instruments and debt securities, trust plans and asset management plans may involve certain risks that are beyond our control. For details, please see “ — Any adverse development in relation to our investments in Non-standard Credit Assets may materially and adversely affect our profitability and liquidity”. For the years ended December 31, 2014, 2015 and 2016, our investments in various types of financial products with funds raised from our wealth management products amounted to RMB3,606.5 million, RMB13,939.4 million and RMB28,569.3 million, respectively.

As most of the wealth management products we issued 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 damaged and we may also suffer a loss of business or decrease in 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. Further, given that some of our wealth management products are principal protected, we are liable for any loss in principal suffered by investors of these products. In addition, the tenures of some of the wealth management products issued by us are shorter than those of their underlying assets. We are thus required to proactively manage the tenures of such wealth management products. 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. During the Track Record Period, we did not experience any material mismatch between wealth management plan issued by us and the underlying investments. Furthermore, the PRC regulatory authorities have released regulations to limit the size of commercial banks’ investments in Non-standard Credit Assets with funds raised from wealth management products. Please see “Supervision and Regulation — Regulation on Principal Commercial Banking Activities — Wealth Management”. If the PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, our liquidity and profitability could be adversely affected. There is no assurance that we can always complete these transactions on commercially acceptable terms in a timely manner or at all, as a result of which, our business, financial condition and results of operations could be materially and adversely affected.

### **If we fail to maintain the growth rate of our deposits from customers or our deposits from customers decrease substantially, our liquidity, financial position and operating results could be materially and adversely affected.**

Deposits from customers have been our primary funding source. We rely on the growth in deposits from customers to expand our loan business and meet other liquidity needs. Decreases in deposits from customers will reduce our funding sources, which, in turn, will reduce our ability to extend new loans while meeting capital and liquidity requirements. In recent years, our deposits from customers have continued to grow. Our total deposits from customers amounted to RMB164,595.8 million, RMB205,370.4 million and RMB245,352.8 million as of December 31, 2014, 2015 and 2016, respectively. However, there are various factors affecting the growth in our deposits from customers, some of which are beyond our control, such as economic and political condition, the availability of alternative investment products, and changes in customers’ preference for savings.



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There is a mismatch between the maturities of our liabilities and our assets. As of December 31, 2016, 90.4% of our total deposits from customers were due within one year. As of the same date, 77.8% of our total loans to customers were due within one year. As a result, there's no assurance that we will be able to maintain the growth in our deposits from customers at a pace sufficient to support our expanding business.

If we are unable to maintain the growth rates of our deposits from customers, 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 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 reasonable terms or at all. If we cannot seek funding from alternative sources on reasonable terms, our business, financial condition and results of operations may be materially and adversely affected.

**The proportion of our short-term loans has been relatively high, which may adversely affect the reliability and stability of our interest income.**

Under the General Rules of Loans of the PBoC, short-term loans are loans with maturity of one year or less. The proportion of our short-term loans in our total outstanding loan balance remained relatively high. As of December 31, 2014, 2015 and 2016, our total short-term loans accounted for 79.3%, 78.6% and 70.1%, respectively, of our total loans, among which, short-term corporate loans accounted for 85.7%, 81.8% and 78.9%, respectively, of our total corporate loans. During the Track Record Period, short-term loans constituted a major portion of our total corporate loans and had been our stable source of interest income. However, we cannot assure you that we will continue to have this stable source of interest income, in particular, when there is greater competition or funds of lower interest are available to customers. Our relatively high portion of short-term loans may have an adverse effect on the reliability and stability of our interest income.

In addition, a high concentration of short-term loans means that the repayment of such loans may be more vulnerable to, and could result in a higher default rate in case of, any downturn in the PRC economy or in the specific industries of the PRC economy to which we primarily lend. Both unstable interest income and a higher rate of loan defaults could have a material adverse effect on our financial condition and results of operations.

**Further interest rate liberalization, the PBoC's adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC's banking industry may materially and adversely affect our results of operations.**

Similar to most PRC commercial banks, our results of operations depend, to a large extent, on our net interest income, which accounted for 95.3%, 95.5% and 94.9% of our operating income for the years ended December 31, 2014, 2015 and 2016, respectively.

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. Please 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 operations 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 operations and financial condition.

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Interest rates in China have been gradually liberalized in recent years. Since June 8, 2012, PBoC has allowed financial institutions to increase the Renminbi deposit interest rate to 110% of the PBoC benchmark interest rate. On July 20, 2013, the PBoC abolished the floating interest rate of Renminbi loans (excluding housing loan interest rates), and allowed financial institutions to set lending rates based purely on commercial considerations. Furthermore, on November 22, 2014, the PBoC permitted financial institutions to raise the Renminbi deposit interest rate up to 120% of the PBoC benchmark interest rate. China had already further raised rates in March 1, 2015 and May 11, 2015 up to 130% and 150% of the PBoC benchmark interest rates, respectively. Beginning on August 26, 2015, the PBoC completely abolished the interest rate cap of Renminbi deposits of over one year. Then on October 24, 2015, the PBoC announced that it would no longer set up a floating ceiling deposit interest rate for commercial banks, signifying the further liberalization of controls on interest rates as financial market players are now permitted to customize consultation services and financial product pricing in accordance with market principles. Interest rate liberalization may intensify competition in the PRC banking industry as PRC commercial banks seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of PRC commercial banks, thereby materially and adversely affecting our results of operations. There is no assurance 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.

As a crucial step for liberalizing interest rates in China, the Deposit Insurance Regulation was published on February 17, 2015 and 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 operations. 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 operations 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.

**We manage our liquidity partly through short-term borrowing in the interbank market. Our borrowing costs may increase as a result of the fluctuation in interest rates on the interbank market, which may materially and adversely affect our liquidity, financial condition and results of operations.**

As of December 31, 2016, the balances of our deposits from banks and other financial institutions, placements from banks and other financial institutions and financial assets sold under repurchase agreements accounted for 11.3%, 2.6% and 6.9% of our total liabilities. According to the Notice on Regulating the Interbank Business of Financial Institutions (《關於規範金融機構同業業務的通知》) jointly issued by the PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014, the net balance of interbank lending of a commercial bank to a single incorporated financial institution (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weight, shall not exceed 50% of its tier-one capital. The balance of interbank borrowing of a commercial bank shall not exceed one third of its total liabilities. We have complied with the above regulatory requirements. Subject to the aforementioned laws and regulations and other applicable requirements,

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we may not be able to acquire sufficient short-term funds from the interbank market at all times, and regulatory authorities may further impose restrictions on the interbank business and interbank borrowing. As a result, our funding costs may increase, which may materially and adversely affect our liquidity and profitability.

**Our current risk management framework, policies and procedures and internal control may not fully protect us from credit, market, liquidity, operational, and other risks.**

We have established a risk management framework and an internal control system to protect us from various risk exposure. As part of the Reorganization, we introduced a new risk management organizational structure, launched an information system to support a centralized database, and revamped our risk management policies and procedures in an effort to improve our overall risk management capabilities. However, as these systems, policies and procedures were installed or implemented relatively recently and they require constant and ongoing testing and maintenance, there is no assurance that these current systems are fully adequate to protect us from all kinds of risks. In addition, our risk management capabilities are limited by the information, tools, or technologies available to us. Please see “ — The effective operation of our business is highly dependent on the proper functioning and improvement of our information technology systems”.

Although we have taken various measures to improve and upgrade our overall risk management system, policies and procedures, due to the inherent limitations of our systems, we may not adequately or effectively identify or mitigate our risk exposure in all market environments or against all types of risks. As a result, our risk management methodologies and techniques may not be effective and we may not be able to manage and control our risks in a timely and appropriate manner, and thereby our asset quality, business, financial condition and results of operations may be materially and adversely affected.

**We may have difficulties in meeting capital adequacy requirements in the future.**

We are subject to capital adequacy regulations set by the CBRC. Please 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 implementation. Calculated in accordance with the Capital Administrative Measures, as of December 31, 2016, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio all satisfied the requirements of PRC banking regulatory authorities. The CBRC may further 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 by deterioration of our financial condition, or the quality of our assets, such as an increase in non-performing loans and a decline in our profitability. If our business growth calls for additional capital 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 which may not be available to us 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 operations and cash flows, conditions prescribed by PRC law and regulatory approvals, general market condition for capital-raising activities by commercial banks and other financial institutions, as well as economic, political and other conditions both within and outside of 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 their capital to achieve growth in their loan portfolios, our results of operations 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

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meet these capital adequacy requirements, the 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, limiting 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 operations.

**We face risks and uncertainties associated with national and local government policies and initiatives adopted to promote local economic development.**

We benefit from favorable policies adopted by the national and local governments to promote the economic development of Henan Province. Henan Province enjoys a wide variety of beneficial national policies and strategies, including the plan of setting out a “Central Plains Economic Zone (中原經濟區)”, the outline for construction of a “National Core Producing Area of Grains (國家糧食生產核心區)”, the initiative of the “One Belt, One Road (一帶一路)”, the establishment of a “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合實驗區)”, the implementation of the “China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)” and the establishment of “Zhengzhou-Xinxiang-Luoyang National Independent Innovation Demonstration Zone (鄭新洛國家自主創新示範區)”. We believe that these policies and strategic planning have been instrumental in the economic growth of Henan Province, 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 Henan Province. Any discontinuation or unfavorable change in such policies may adversely affect our business, financial condition and results of operations.

**We will be exposed to various risks as we expand the range of our products and services, and we may not be successful in expanding our fee- and commission-based businesses and other non-interest income businesses.**

We have been continuously expanding 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 and net interest income has historically been the largest component of our operating income, representing 95.3%, 95.5% and 94.9% of our operating income in 2014, 2015 and 2016, respectively. As part of our growth strategy, we plan to introduce more fee- and commission-based products and services, such as direct sales banking platform, credit cards and financial markets business. Our expansion in products and services portfolio has exposed and will continue to expose us to new and potentially increasingly challenging market and operational risks. In particular, for certain fee- and commission-based products and services, we are not the principal issuer or borrower of relevant products, but act as the distributor of relevant products, or provide other services like monitoring the quality of relevant financial products and making timely claim to enforce rights of lenders or investors. These products are also subject to inherent risks associated with financial performance or business operations of relevant issuers or owners of underlying assets, which are affected by many factors beyond our control, including general economic condition or proper compliance with laws and regulations by relevant third parties. For these products, we are not liable for any investment losses or defaults directly derived from them. However, we may still be subject to client complaints, negative news coverage and possible litigations which could have an adverse effect on our reputation.

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

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from interest rate liberalization measures. Please see “ — Risks Relating to the PRC Banking Industry — Further development of interest rate liberalization, PBoC’s adjustments to the benchmark interest rate, deposit insurance program and other regulatory changes in the PRC’s banking industry may materially and adversely affect our results of operations”.

Furthermore, if we are unable to obtain relevant regulatory approvals, or comply with relevant banking regulations in relation to 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 to us.

### **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 in the ordinary course of our business, which generally relate to our attempts to recover debts from borrowers or claims made by our customers or other parties against us. Customers may commence litigation or arbitration proceedings against us and we may also be subject to inquiries, investigations, litigations and proceedings by governmental agencies. In particular, during the Track Record Period, we were involved in litigations or disputes in relation to transactions involving forged official stamp of our Bank, business transactions conducted by certain managers without legitimate authorization, disputes with counterparties for alleged defaults in payment or personal misconduct involving bribery and embezzlement. For details, please see “Business — Legal and Administrative Proceedings”. Except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there is no litigation, arbitration or investigation against us, our employees, management or Directors that would cause a material adverse effect on our business operations or financial results. There is no assurance that the outcome in any of the litigation/arbitration in which we are involved would be favorable to us, or the judgment in relation to the rejected litigations against us will not be subject to disputes resulting in new litigation, appeal or retrial. Also, we cannot guarantee that any existing or potential investigations will not cause material adverse effect on us, or any future legal disputes we may confront will not result in damages to our reputation, additional operational costs or a diversion of our resources and management’s attention from our business operations, in which case, our business, financial condition and results of operations may be adversely affected.

### **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, customers or other third parties, which could subject us to financial losses, third party claims, regulatory actions or reputational damages. There is no assurance that our internal control policies and procedures can always be effective and sufficient to prevent, or that we can otherwise fully detect or deter, all incidents of fraud and misconduct involving our employees or third parties including, without limitation, mishandling or embezzlement of bills held for resale by our employees, bribery or embezzlement or defaults in making timely repayment. Please see “Business — Legal and Administrative Proceedings”. In addition, while we have enhanced and adopted additional risk management measures to mitigate relevant risks as disclosed in details in the section headed “Risk Management — Operational Risk Management”, there is no assurance that improper acts of employees or third parties against us, such as fraud, stealing, theft of customer information for illegal activities, can always be successfully prevented or mitigated or timely identified, which may in turn expose us to certain risks resulting us to suffer from negative publicity, reputation damage or litigation losses. Should any of the above mentioned factors occur, our business, financial condition and results of operations could be materially and adversely affected.

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**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 demands is dependent upon the continued services of our senior management and other key personnel. In particular, our future success depends substantially upon our key personnel's experience in the banking industry and the business operations of our Group as well as their sales and marketing skills. The departure of any member of our key personnel may have a material adverse effect on our business and results of operations. In addition, we may face increasingly fierce competition in recruiting and retaining qualified staff, including senior management, since other banks are competing for the same pool of qualified candidates and our compensation packages may not be as competitive as those of our competitors. There is no assurance that we will be able to recruit or retain qualified staff, 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.

**The effective operation of our business is highly dependent on the proper functioning and improvement of our information technology systems.**

Our business largely relies on the secure and efficient operation of our information technology systems. In particular, our information technology system supports the proper function of our internal control, risk management, customer service and other data processing systems, together with the communication networks between our branches and our main data processing centers, each of which is critical to the sustainable development of our business and our ability to maintain competitiveness. For details of the operation and backup mechanism of our information technology systems, please see "Business — Information Technology". However, there is no assurance that our operations will not be materially disrupted by a partial or complete failure of our information technology systems resulted from various factors beyond our control, including but not limited to, telecommunication network or Internet breakdowns, software bugs, computer virus attacks, conversion errors brought by system upgrading, an equipment provider's failure to provide proper system maintenance, or an outbreak of disasters or incidents. In particular, in recent years, as more and more public and private enterprises, including banks and financial institutions, are relying on proper function of information technology systems for their business operations, they are vulnerable to cyber-attacks, which may severely damage their internet banking or mobile banking operations, causing temporary or pro-longed suspension of relevant services, or theft of customer data which may lead to further complaint or litigation from relevant customers. While we have adopted various measures to mitigate relevant risks associated with cyber-attacks, there is no assurance that our defense measures can always effectively protect us from damages. For details of our relevant measures, please see "Risk Management — Information Technology Risk Management". The occurrence of any above mentioned incidence, or any security breach caused by unauthorized accesses to our 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 operations.

In addition, our ability to remain competitive depends partially on our ability to upgrade our information technology system in a timely and cost-effective manner in order to meet increasing market demands for financial products and services and address the evolving technology challenges in relation to such financial products and services. Any failure to timely develop, improve or upgrade our information technology systems effectively may materially and adversely affect our business, financial condition and results of operations.

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**If we fail to fully comply with 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, such as the CBRC, PBoC, SAFE, CSRC, CIRC, MOF, NAO, SAIC and SAT. These laws, regulations, guidelines and regulatory requirements include approvals for banking products and services, market entry, opening of new branches or sub-branches, taxation and accounting policy, risk management, internal control and pricing. These regulatory authorities carry out supervision and spot checks of banks like us and have the authority to impose penalties or remediation requirements based on their findings.

During the Track Record Period, we failed to meet certain of the above regulatory requirements. Please see “Business — Legal and Administrative Proceedings — Regulatory Inspections and Proceedings” and “Supervision and Regulation — Other Operational and Risk Management Ratios”. There is no assurance that we will be able to meet all applicable regulatory requirements and guidelines, or comply with all 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, and 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 engage 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. Please see “Risk Management — Legal and Compliance Risk Management” and “Supervision and Regulation — Ownership and Shareholder Restrictions — 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 of bank acceptances, loan commitments, letters of guarantees issued, letters of credit issued, operating lease commitments and capital commitments. Such arrangements are not reflected on our balance sheet but they constitute contingent assets or contingent liabilities. As of December 31, 2016, our off-balance sheet commitments totaled RMB38,069.7 million. For more details, please see “Financial Information — Off-balance Sheet Commitments”. We are subject to credit risks associated with certain of 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 customers, our financial condition and results of operations may be materially and adversely affected.

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

As of Latest Practicable Date, among our 9,881 existing Shareholders, we had not been able to confirm the identities of 1,028 of our Shareholders because we are unable to contact them or for other reasons. The Shares held by such Shareholders represented an aggregate of approximately 0.89% of our total issued share capital.

There is no assurance 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 Property Rights Trading Center in Henan Province. King & Wood Mallesons, our PRC legal advisor, is of the view that the existence of the aforementioned unidentifiable Shareholders is not expected to have material adverse effect on our share capital structure, corporate governance and business operations. However, there is no assurance that there will not be any disputes regarding equity interests raised by Shareholders, such as disputes over the dilution of their shares, including H Share. Any of such disputes or objections may result in negative publicity or reputational damage to us.

**We may be subject to more stringent regulatory requirements in the future and our Shareholders, including holders of our H Shares, may be subject to voting restrictions due to their pledge of our shares.**

According to the CBRC Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》) (the “**Notice**”) issued by the CBRC in November 2013, commercial banks are required to stipulate in their articles of association that, for those shareholders that have pledged 50% or more of their equity interests in the bank, their voting rights at general meetings and the voting rights of directors designated by them at board meetings shall be “subject to restrictions” (the “**Voting Restrictions**”). However, the Notice did not provide clarification or guidance on what restrictions should be imposed or how they should be imposed.

To comply with the Notice, we included articles of Voting Restrictions in our initial draft of Articles of Association, which was adopted and approved at our inaugural meeting on December 18, 2014, and later approved by CBRC Henan Office on December 23, 2014. However, we had not imposed the Voting Restriction up to the Latest Practicable Date due to the lack of clarification and guidance in the Notice and authoritative interpretation. For details, please see “Supervision and Regulation — Ownership and Shareholder Restriction — Restrictions on Shareholders”. According to the Notice, a shareholder who pledges his equity interest shall notify the board of the bank in advance, while 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. For details on our internal control measures in relation to monitoring and recording share pledge, please see “Supervision and Regulation — Ownership and Shareholder Restrictions — Restrictions on Shareholders”. As advised by our PRC legal advisor, King & Wood Mallesons, as of the Latest Practicable Date, there was no clear implementation rule, interpretation or guidance on legal consequence should the relevant shareholder fail to make successful notification or filing. However, there is no assurance that the PRC authority may not issue more stringent rules and regulations to set restrictions or prohibitions against share pledge made by shareholders who failed to complete relevant notice or filing prior to share pledge. In addition, there is no assurance that we will not be required by regulatory authorities to impose the Voting Restrictions on our Shareholders, including holders of our H Shares, in a manner deemed appropriate by such regulatory authorities which, in extreme cases, may involve suspension of the relevant Shareholders’ voting rights.



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### **We may not be able to register our trademarks in Hong Kong.**

As of the Latest Practicable Date, we lodged three trademark applications for registration in Hong Kong as set out in the paragraph headed “Statutory and General Information — 2. Further Information about Our Business — B. Intellectual Property Rights — (a) Trademarks” in Appendix VII to this prospectus. However, there is no assurance that such pending applications for trademark registration in Hong Kong will eventually be approved or that we would be granted exclusive rights to use them as registered trademarks in Hong Kong. There remains the possibility that the trademark could not be registered, or the registration process could be delayed whether due to opposition proceedings or otherwise. The use of certain trademarks in Hong Kong in the course of trade may be alleged to infringe upon other registered trademarks in Hong Kong, in the absence of a valid and subsisting trademark registration or defence. However, even a valid registration of trademark will not necessarily preclude the use of a mark from constituting passing-off of another trade name. Our business, financial condition, results of operations and prospects may be materially and adversely affected if we are involved in any trademark dispute.

### **The use of our Chinese name in this prospectus and the use of it in the course of trade or business in Hong Kong, if any, may be challenged due to potential allegations of trademark infringement and passing off.**

Our Bank was established in Henan Province in December 2014 and has since been carrying on business under the name of “中原銀行股份有限公司” in the PRC. We also submitted application for non-HK company registration in Hong Kong with the name of “中原銀行股份有限公司” and ZHONGYUAN BANK CO., LTD. on April 11, 2017. With the intention of applying for the registration of certain trademarks comprising “中原銀行” and its variations in Hong Kong, covering the services of financial services, monetary affairs, securities brokerage, wealth management, asset management, fund management, investment advisory and capital investment, we sought the opinion of the Hong Kong Trade Marks Registry (the “**Trade Marks Registry**”) on the registrability of such marks. The Trade Marks Registry was of the view that certain trade marks including  ... etc. have been registered by Vico Foundation Limited (“**VACO**”), the application to register the Bank’s trade mark  is likely to be refused under Section 12 of the Trade Marks Ordinance. A search revealed that VICO is a company related to, inter alia, 中原地產代理有限公司 (Centaline Property Agency Limited) and 中原證券有限公司 (Centaline Securities Limited), companies incorporated in Hong Kong engaging in the businesses of, among others, property agency, trading of securities and derivatives and ETFs respectively, these companies will herein be referred to as “Centaline”. However, the Bank’s operations are in PRC and its business is not associated with real estate agencies, trading of securities, derivatives or ETFs in Hong Kong.

There is no guarantee that, Centaline will definitely not make any claim against us. Further, Centaline may oppose our applications for certain trademarks containing the words “中原”. As pointed out above, even with a valid registration of the company name as a non- Hong Kong company, the risk of a claim for passing-off remains at least at the beginning of the business being carried on in this territory. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operations. In addition, according to the relevant HK laws and regulations, the Registrar of the Company Registry may direct a company, within 12 months from the date of its incorporation, to change its name if such name is too like the name of any other name(s) in the Registrar’s Index of Company Names, upon receipt of a valid complaint from any third party.

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Should we receive any complaint for trademark infringement or encounter any dispute in relation to the name we used for non-Hong Kong company registration, even we can win favorable judgment or order, our reputation as well as our business, financial condition and results of operations may be materially and adversely affected.

We have been advised by our counsel, Ms. TAM, Winnie, SC (譚允芝資深大律師), the use of “中原銀行” in this prospectus is unlikely to attract liability in trade mark infringement or passing-off, primarily because the use of the name “中原” together with “銀行” is not by itself use of which as a trade mark on any services or in relation to any operation in financial services in Hong Kong, but only in relation to the proposed public listing of the Bank’s shares. We also intend to, where necessary, enter an appearance to contest liability in trade mark infringement and passing-off, to defend our proper rights. As advised by our counsel, Ms. TAM, Winnie, SC, we are of the view that, here in our case, the court is not likely to grant interlocutory judgment in favor of VACO preventing the use of “中原銀行” in this prospectus. This is because the use of the name on this prospectus does not itself amount to carrying on any substantive business in Hong Kong, and we are taking active measures to distinguish the mainland banking business “中原銀行” as an independent non-Hong Kong business proposing its shares to be listed in Hong Kong, instead of using “中原銀行” in any way which might be deceptive in conducting local business, or registering a potentially deceptive corporate name with intention for any deceptive use here or across the border.

While we have taken certain steps to minimize the potential risks, such as:

- (1) ensuring appropriate presentation of logos and characters, including (i) always presenting the name and mark “中原” together with the designation “銀行” in this prospectus and any documents relating to listing whenever our Bank is referred to; and (ii) visually associating the above full Chinese name with the logo mark where appropriate; and
- (2) making clear disclosure in this prospectus on the fact that our Bank’s operation has always been in China and is not associated with any business in real estate agencies, trading of securities, derivatives or ETFs in Hong Kong, thereby clearly identifying our own business as a long-established mainland China banking business and distinguishing ourselves from a Hong Kong-based estate agency business that may have branched out into providing financial services in Hong Kong in relation to the sale and purchase of property in Hong Kong.

However, even with steps and measures as described above, there is no assurance that Centaline will not make any claim against us. Nor could we assure you that Hong Kong courts will not grant any interim measure including interlocutory injunction in favor of Centaline to halt the use of the name even only on a prospectus, given the relatively low threshold that is required to be satisfied for interim relief to be considered. However, in such an event, we plan to take active steps to defend our rights. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operations. In addition, should we be held liable for trademark infringement, our reputation as well as our business, financial condition and results of operations may be materially and adversely affected.

### **We may not be able to effectively manage the risks associated with our village and township banks.**

As of December 31, 2016, we controlled a total number of nine village and township banks. We realized our control over four out of nine village and township banks through holding of more than 50% of their shares, and the rest five through acting-in-concert agreements. We consolidated all nine village and township banks in our financial statements, including those we owned less than 50% of their equity interests, since they satisfied the criteria for consolidation under the applicable accounting standards. Please also see the “Financial Information — Critical Accounting Judgments and Key

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Sources of Estimation Uncertainty — Subsidiaries and Non-controlling Interests”. For the year ended December 31, 2016, our operating income attributable to these village and township banks amounted to RMB385.2 million, accounting for 3.3% of the Group’s total operating income. Please also see “Business — Distribution Network — Village and Township Banks”.

For those five village and township banks, they are aligned with us through acting-in-concert agreements which were entered into by us and their certain minority shareholders. These minority shareholders may fail to abide by their agreements, for which our Bank may have limited or no recourse. Our Bank may not be able to continue to consolidate the financial results of these subsidiaries if these minority shareholders cease to align their votes with us, or if the acting-in-concert agreements are terminated. Furthermore, these subsidiaries may make business decisions, take risks or otherwise act in a manner that does not completely align with our interests or our direction of the business development of such subsidiaries, which could materially and adversely affect our results of operations and damage the Group’s reputation.

We give a high level of autonomy to these village and township banks in terms of risk management and internal control. We cannot assure you that our village and township banks will manage risks as rigorously as our Bank does or that our Bank will be able to detect and/or rectify deficiencies in their risk management, internal control system or failure of their information technology systems in a timely manner. In particular, during the Track Record Period, one of our village and township banks was involved in litigations due to alleged misconduct of certain employees including forging legal documents and abuse of authority. Please see “Business — Legal and Administrative Proceedings — Legal Proceedings”. While we have adopted various risk management measures to mitigate relevant risks as disclosed in details in “Risk Management — Credit Risk Management”, there is no assurance that we can always successfully identify, prevent or mitigate risks associated with management of village and township banks due to limitations by nature of risk management work. We cannot assure you that these subsidiary banks will always operate their business in the way we expected. Furthermore, weakness or failures in their internal processes or systems or other operational challenges could lead to a disruption in our operations, liabilities to clients, exposure to disciplinary action or reputational harm.

**Our business, financial condition, results of operations, prospects and the value of your investment may be adversely affected as a result of negative media coverage of our Bank, our senior management or China’s banking industry in general, even if such negative publicity is inaccurate, unsubstantiated or immaterial.**

Our business reputation is crucial to our success. China’s banking industry continues to be covered extensively and critically by various news media. In recent years, incidents of fraud and issues in relation to non-performing loans, loan quality, capital adequacy, solvency, internal controls, and risk management have been extensively reported by media. In addition, in recent years, certain media made false report against us, including false allegation of fraud and illegal activities of senior management and former employees. After investigation, we are of the view that these reports are of no merit. As of the Latest Practicable Date, these matters have not resulted in relevant litigations or penalties by regulatory authorities. In addition, before the Reorganization, each of the Thirteen City Commercial Banks, as an independent legal entity, may have faced negative media coverage, with respect to their business operations, employees’ non-compliance, administrative penalties and others which are beyond our control. The above mentioned negative media coverage, whether accurate or applicable or not, will have a material adverse effect on our reputation and consequently undermine our customers’ confidence. As a result, our business, financial condition, results of operations, prospects and the value of your investment may be materially and adversely affected.

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### **Our deferred tax assets may not be recovered, which could materially and adversely affect our results of operations.**

As of December 31, 2016, our deferred tax assets amounted to RMB1,529.6 million, representing approximately 0.4% of our total assets. We periodically assess the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, 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. However, there is no assurance that our expectation of future earnings could be accurate due to factors beyond our control, such as general economic conditions or negative development of regulatory environment, in which case, we may not be able to recover our deferred tax assets which thereby could have a material adverse effect on our results of 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. We principally compete with large state-owned commercial banks, nationwide joint-stock commercial banks, rural commercial banks and other city 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 investments 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 into stock, debt securities, and wealth management products, which may result in a decrease in our deposits from customers, 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 banking customers could materially and adversely affect our business, financial condition and results of operations.

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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. Online wealth management products have attracted a large number of retail banking customers. Bank profits are challenged by the growing popularity of third-party online payment platforms, such as Alipay and Tenpay. With the rapid growth in e-commerce, Chinese customers are now paying for a wide range of goods and services online. Although a portion of online transactions are paid for by credit or debit cards issued by banks, third-party payment solutions are becoming popular in China, indicating that Internet companies are playing an increasingly important role in China's payment system. Similar to other commercial banks, we also face competition from other types of Internet finance, such as P2P lending and crowdfunding. There is no assurance 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 operations 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 the MOF, NAO, PBoC, SAT, CBRC, CSRC, SAFE and their respective local branches. 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 banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. The 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 operations.

**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

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recent slowdown in China's economic growth has led to a rise in non-performing loans of the banking industry. Furthermore, Henan Province is currently experiencing industrial restructuring. In the event that we cannot adapt to such changes, our business, financial condition and results of operations could be materially and adversely affected.

**Changes 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 manage our liquidity partly through short-term borrowing in the interbank market. In order to meet our liquidity needs, we borrow short-term funds on the interbank market from time to time. As of December 31, 2016, our deposits from banks and other financial institutions, placements from banks and other financial institutions and financial assets sold under repurchase agreements accounted for 11.3%, 2.6% and 6.9% of our total liabilities. 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. There is no assurance 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. For further discussion on risks associated with interbank business, please also see the section headed “— We manage our liquidity partly through short-term borrowing in the interbank market. Our borrowing costs may increase as a result of the fluctuation of interest rates on the interbank market, which may materially and adversely affect our liquidity, financial condition and results of operations.”

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

**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 in assessing 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 operations.

**Investments in commercial banks in China are subject to 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

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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.

### **Changes in accounting standards or policies may materially affect our financial condition and results of operations.**

Financial accounting and reporting standards as well as relevant interpretation, which govern the form and content of our financial statements, are subject to changes from time to time. Such changes are beyond our control and can be difficult to predict, and may materially impact how we record and report the results of our operations, for example, we may be required to apply a new or a revised standard retroactively, leading to material changes to previously reported financial results.

In July 2014, the International Accounting Standards Board (“IASB”) issued the final version of IFRS 9 — Financial Instruments, which will become effective on January 1, 2018. Adoption of IFRS 9 will give rise to substantial changes in the classification and measurement of financial assets and financial liabilities. Under IFRS 9, when determining the provision for impairment losses of financial assets, we will be required to replace the incurred loss impairment model in IAS 39, which we currently use, with an expected loss impairment model that will apply to various exposures to credit risk. In addition, when classifying and measuring financial assets, IFRS 9 may require us to consider the business model and contractual cash flow characteristics of the financial assets.

Any future changes on our accounting policies may have material impact on our financial condition and results of operations.

### **The transition from business tax to value-added tax may adversely affect our financial condition and results of operations.**

The PRC government has been progressively implementing the pilot reform for the transition from business tax to value-added tax in certain regions and industries from 2012. Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to Value-added Tax (《關於全面開展營業稅改徵增值稅試點的通知》, Cai Shui [2016] No. 36) and the Implementing Measures for the Pilot Program for Transition from Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》) issued by MOF and SAT on March 23, 2016, the pilot program started to apply to the financial industry from May 1, 2016. We started to calculate and pay value-added tax instead of business tax on the same date.

In addition, the MOF and the SAT issued Circular on Value-added Tax Policies for Financial, Real Estate Development, Education Ancillary Service and Other Services (《關於明確金融房地產開發教育輔助服務等增值稅政策的通知》, Cai Shui [2016] No.140) on December 21, 2016 and the Supplemental Announcement on Value-added Tax Policies on Asset Management Products (《關於資管產品增值稅政策有關問題的補充通知》, Cai Shui [2017] No.2) on January 6, 2017, which may cause

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significant impact on the value-added tax exposure of financial investment and asset management business of financial enterprises. Given that we have assets in financial investments and we are managing a number of wealth management products, our operating results may be affected accordingly.

Due to the different basis of value-added tax and business tax, the revenue recognized under the value-added tax regime will be slightly less than that under the business tax regime on condition that the total revenue and other tax liabilities remain unchanged. In accordance with the policies on transition from business tax to value-added tax of the financial industry, there is in general a rise in tax burdens on banks due to such a transition. The increase in tax rate and the change in the basis of taxation will affect our tax burden to a certain extent. Had the value-added tax policy been implemented on January 1, 2014, our net profit would have decreased by (i) no more than 1.6% in 2014, (ii) no more than 1.2% in 2015, and (iii) no more than 2.0% for the four months ended April 30, 2016 (the value-added tax policies were implemented on May 1, 2016), without taking into account, among other things, (i) some applicable tax-exemptions in our investment business and (ii) the deduction of the input value-added tax. Furthermore, as such transition from business tax to value-added tax has been implemented just recently, the PRC government may further supplement and amend the relevant policies and rules, and different interpretations may be applied during the implementation of these policies and rules. Therefore, uncertainties remain as to the tax treatment of our income and expenses under the new value-added tax regime. Hence, implementation of measures for transition from business tax to value-added tax may adversely affect our financial condition and results of operations.

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

We established a five-level eleven sub-categories loan classification system in accordance with the guidelines set forth by the CBRC. The five categories are normal, special mention, substandard, doubtful, and loss. Based on the CBRC five-level loan classification (normal, special mention, substandard, doubtful and loss), we divide our credit assets into 11 sub-categories, including two under “normal”, three under “special mention”, three under “substandard”, two under “doubtful” and one under “loss”, and consider the loans classified below “substandard+” as non-performing loans. 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. Although our loan classification criteria are in compliance with the guidelines set forth by the CBRC, certain aspects of our loan classification criteria may not be the same with those adopted by other PRC commercial banks. For details on our loan classification criteria, please see “Assets and Liabilities — Assets — Loans to Customers — Asset Quality of Our Loan Portfolio — Loan Classification Criteria”. 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 that could be reported if we were 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 to a number of restrictions. The investment assets of PRC commercial banks traditionally consist primarily of bonds issued by the MOF, PBoC, PRC policy banks, PRC commercial banks and corporate entities. In recent years, as a result of



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changes to the regulatory regimes and market conditions, additional investment products have been introduced to the market, such as trust plans, asset management plans, wealth management products issued by financial institutions, investment funds, asset-backed securities, beneficiary rights in margin financing and beneficiary certificates. 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 operations 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 regulating the PRC's macro economy through the fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. The PRC government has taken various actions to introduce market forces for economic reform, to reduce state ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the economy and the industries by issuing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, the monetary policy and preferential treatments to particular industries or enterprises.

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. China's real GDP growth was 7.4%, 6.9% and 6.7% in 2014, 2015, and 2016, respectively.

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 the register of Shareholders, disputes between holders of H Shares and ourselves, 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

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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 the 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 Administrative 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.

**Withholding tax may be imposed on payments on the H Shares.**

The United States has enacted rules, commonly referred to as “FATCA,” that generally impose a withholding regime with respect to “withholdable payments,” generally U.S. source payments of dividends and interest and, beginning in 2019, gross proceeds from the disposition of property that can produce U.S. source payments, and, in the future, may impose such withholding on “foreign passthru payments” made by a “foreign financial institution” (an “**FFI**”), unless such FFI complies with certain diligence and reporting requirements. Under current guidance, the term “foreign passthru payment” is not defined and it is therefore not clear whether or to what extent payments on the H Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments on the H Shares made before January 1, 2019. The United States has entered into an intergovernmental agreement (an “**IGA**”) with Hong Kong (the “**Hong Kong IGA**”), and has agreed in substance with the PRC to an IGA (the “**PRC IGA**”), which potentially

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modifies the FATCA withholding regime described above. Under the FATCA rules and the IGAs, our Bank and its subsidiaries that are treated as FFIs will be subject to the diligence and reporting obligations under FATCA or an applicable IGA. In order to avoid the withholding regime described above, we and each of our subsidiaries intend to comply with the diligence and reporting requirements under FATCA in accordance with relevant laws and regulations, which may affect how we structure our operations and conduct our business. It is not yet clear how the Hong Kong IGA and the PRC IGA will address foreign passthru payments. Prospective investors in the H Shares should consult their tax advisors regarding the potential impact of FATCA, the PRC IGA, the Hong Kong IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

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

Substantial part of our revenue is denominated in Renminbi, which is 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, which would limit our ability to exchange Renminbi for other currencies. Therefore, we may not be able to pay dividends in foreign currencies to our H Shares holders.

From time to time, the value of the Renminbi against the U.S. dollar and other currencies fluctuates, 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 changed its decade-old policy of pegging the value of the Renminbi to the US dollar where the Renminbi is permitted to fluctuate in a regulated band that is based on reference to a basket of currencies determined by the PBoC. The PRC government further reformed the Renminbi exchange rate regime in 2012 and 2014. On August 11, 2015, PBoC announced to improve the central parity of Renminbi against the U.S. dollar by authorizing market-makers to provide parity 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 Renminbi against the U.S. dollar depreciated nearly 2.0% as compared to August 10, and further depreciated nearly 1.6% on August 12 as compared to August 11. With the development of foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further reforms to the exchange rate regime.

We believe our current exposure to risk relating to fluctuations in exchange rates is limited. As of December 31, 2016, 0.046% of our assets and 0.048% of our liabilities were denominated in foreign currencies. However, our foreign currency business may expand and, therefore, any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may diminish the value of our foreign currency-denominated assets. Conversely, any devaluation of the Renminbi 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 a 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 Renminbi against the U.S. dollar or any other

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foreign currencies may materially and adversely affect the financial conditions of our customers, particularly those deriving substantial income from product exporting or related businesses, and in turn may impair their ability to perform their obligations to repay their debt to us. Furthermore, we are also currently required to obtain approval from SAFE before converting large amounts of foreign currencies into Renminbi. All of these factors could adversely affect our financial condition and results of operations.

**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%. As of the Latest Practicable Date, there remains uncertainty in the interpretation and application of relevant current Chinese tax laws and regulations 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 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 its application measures, which can be further reduced 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.

Please see “Appendix VI — Taxation and Foreign Exchange”.

**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

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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, the CBRC has the right 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, please see "Supervision and Regulation — Supervision over 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 operations.**

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 operations.

**We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this prospectus regarding the PRC, the PRC economy or the PRC and global banking industries.**

Facts, forecasts and statistics in this prospectus related to the PRC, the PRC economy and the PRC and global banking industries, including our market share information, are derived from various official sources and information published by various government authorities and departments, such as the PBoC, the CBRC, the NBS, the NDRC or other public sources, which are generally believed to be reliable. However, we cannot guarantee the quality, comparability, and reliability of such material. In addition, these facts, forecasts and statistics have not been independently verified by us or any other parties involved in the Global Offering, and may not be consistent with information available from other sources, and may not be complete or up to date. We have taken reasonable care in reproducing or extracting information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other reasons, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics offered by other economies. Therefore, you should not unduly rely on such information.

### RISKS RELATING TO THE GLOBAL OFFERING

**No prior public market for our H Shares exists, an active trading market for our H Shares may not develop, and their trading prices may fluctuate significantly.**

Prior to the Global Offering, there was no public market for our H Shares. There can be no assurance that an active trading market for our H Shares will develop and be sustained following the

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Global Offering. In addition, the initial Offer Price of our H Shares is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), and may not be indicative of the market price of our H Shares following the completion of the Global Offering. Moreover, the trading volume and the price of our H Shares may be affected by various factors including the research reports yet to be released about us prepared by securities and industries analysts or a reduction of their ratings on our H Shares. If an active public market for our H Shares does not develop after the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected.

**Future sales or perceived sales of a substantial number of our Shares in public markets could adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future.**

The market price of our H Shares could decline as a result of future sales of a substantial number of our Shares or other securities relating to our Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a time and on terms favorable to us. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. New equity or equity-linked securities issued by our Bank may also confer rights and privileges that take priority over those conferred by the H Shares.

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

The Bank's Domestic Shares can be converted into H Shares, if the conversion and trading of H Shares so converted shall have been duly completed pursuant to requisite internal approval process and the approval from the relevant PRC regulatory authorities, including the CSRC. In addition, such conversion and trading must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council and the regulations, requirements and procedures of the Hong Kong Stock Exchange. A vote by the shareholders in separate class meetings is not required for the listing and trading of the converted shares on an overseas stock exchange. If a significant number of Domestic Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially and adversely affect the prevailing market price of our H Shares.

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

The initial public offering price of our H Shares is higher than the net tangible asset value per share of the outstanding shares of our then-existing shareholders as of December 31, 2016. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in the pro forma adjusted net tangible asset value of HK\$2.30 per H Share as of December 31, 2016, without giving effect to any changes to our net tangible assets subsequent to December 31, 2016 other than the Global Offering (assuming an offer price of HK\$2.53 per share for our H Shares, being the high-end of our indicative offer price ranges of the Global Offering, respectively, and assuming that the Over-allotment Option for the Global Offering is not exercised and after deduction of estimated underwriting fees and offering expenses in connection with the Global Offering payable by us). If the Over-allotment Option for the Global Offering is exercised, or if we issue additional shares in the future, purchasers of our H Shares could experience further dilution.

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

The amount of dividends we have paid historically is not indicative of our future performance or the amount of dividends that may be paid in the future. Any future declaration of dividends will be proposed by our Board and the amount of any dividends will depend on various factors, including our financial condition, results of operations, prospects, capital adequacy levels and other factors that our Board may determine to be important. For future details of our dividend policy, see “Financial Information — Dividends”. We cannot guarantee if and when we will pay dividends in the future.

**Since there may be a gap of several Business Days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.**

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**You should only place reliance on information released by us including this prospectus, the Application Forms and other formal announcements made with respect to our Global Offering, and not place any reliance on any information contained in press articles or other media when making your investment decision.**

We have not authorized anyone to provide you with information that is not contained in this prospectus and the Application Forms. Any financial information, financial projections, valuations, and other information purportedly about us contained in any press articles or other media have not been authorized by us and we make no representation as to the appropriateness, accuracy, completeness, or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. In making your decision as to whether to purchase our H Shares, you should rely only on the information in this prospectus, the Application Forms and other formal announcements made with respect to our Global Offering.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **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 Ordinance, the Securities and Futures (Stock Market Listing) Rules 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 enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

### **APPROVAL OF THE CSRC AND THE CBRC**

Our Bank obtained approval letters from CBRC Henan Office and the CSRC on March 23, 2017 and June 13, 2017, respectively, for the submission of the application to list the H Shares on the Hong Kong Stock Exchange and for the Global Offering, respectively. In granting such approval, neither the CSRC nor the CBRC shall accept any responsibility for the financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

### **UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 330,000,000 H Shares initially offered and the International Offering of 2,970,000,000 H Shares initially offered (subject, in each case, to reallocation on the basis under "Structure of the Global Offering" in this prospectus).

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the Bank on behalf of ourselves and the Selling Shareholders. The International Purchase Agreement is expected to be entered into on or about July 12, 2017, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and the Bank (on behalf of ourselves and the Selling Shareholders). Further details of the Underwriters and the underwriting arrangements are set out in "Underwriting" in this prospectus.

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

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

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for the H Shares are set out in "How to Apply for Hong Kong Public Offer Shares" of this prospectus and on the relevant Application Forms.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **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 the Bank on or around Wednesday, July 12, 2017 or such later date as may be agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and the Bank on behalf of ourselves and the Selling Shareholders, and in any event no later than Tuesday, July 18, 2017. If the Global Coordinators (on behalf of the Underwriters) and our Bank are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

### **RESTRICTIONS ON OFFER AND SALE OF THE H SHARES**

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H 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. Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the H Shares to confirm, that he is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered, directly or indirectly, in the PRC or the United States.

### **SELLING SHAREHOLDERS**

The Selling Shareholders are required to reduce their shareholding in the Global Offering pursuant to the relevant PRC regulations relating to the reduction of state-owned shares. For certain particulars of the Selling Shareholders, see “Appendix VII — Statutory and General Information — 4. Other Information — L. Particulars of the Selling Shareholders”.

### **APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE**

The Bank has applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, the H Shares, including (i) any H Shares which may be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option; (ii) any H Shares, converted from Domestic Shares to be sold under the Global Offering (including such Domestic Shares converted to H Shares in accordance with the relevant PRC regulations and such additional Domestic Shares converted to H Shares upon the exercise of the Over-allotment Option). The Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval authorities of the State Council, details of which are set out in “Share Capital — Conversion of the Domestic Shares into H Shares” in this prospectus.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 on Wednesday, July 19, 2017. Except for the pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of the Bank’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

The H Shares will be traded in board lot of 1,000 H Shares. The stock code of the H Shares is 1216.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange is rejected before the expiration of three weeks from the date of the closing of the subscription application, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Bank by or on behalf of the Hong Kong Stock Exchange.

### **COMPLIANCE WITH THE LISTING RULES**

We will comply with applicable laws and regulations in Hong Kong (including the Listing Rules) and any other undertakings which have been given in favor of the Hong Kong Stock Exchange from time to time. If the Listing Committee finds that there has been a breach by us of the Listing Rules or such other undertakings which may have been given in favor of the Hong Kong Stock Exchange from time to time, the Listing Committee may instigate cancellation or disciplinary proceedings in accordance with the Listing Rules.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

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

- (a) agrees with the Bank and each of the Shareholders, and the Bank agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with the Bank, each of the Shareholders, Directors, Supervisors, managers and officers, and the Bank, acting for ourselves and for each of the Directors, Supervisors, managers and officers 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 the Group's affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (c) agrees with the Bank and each the Shareholders that the H Shares are freely transferable by the holders of the H Shares; and
- (d) authorizes the Bank to enter into a contract on his or her behalf with each of the Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to the Shareholders as stipulated in the Articles of Association.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasized that none of the bank, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **OVER-ALLOTMENT AND STABILIZATION**

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under “Underwriting” in this prospectus.

### **PROCEDURES FOR APPLICATION FOR THE H SHARES**

The procedures for applying for the H Shares are set out in “How to Apply for Hong Kong Public Offer Shares” in this prospectus and on the Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering” in this prospectus.

### **H SHARE REGISTER AND STAMP DUTY**

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Bank maintained in Hong Kong. The Bank will maintain the principal register of members at the Bank’s head office in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Bank in Hong Kong will be subject to Hong Kong stamp duty.

Unless otherwise determined by the Bank, dividends payable in Hong Kong dollars in respect of the H Shares will be paid to the Shareholders listed on the H Share register of members of our Bank in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder of the Bank.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and 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 on 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. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.8750 to HK\$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on June 23, 2017 (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.8238 to US\$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on June 23, 2017 and (iii) the translations between U.S. dollars and

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Hong Kong dollars were made at the rate of HK\$7.7997 to US\$1.00, the noon buying rate in effect on June 23, 2017 as set forth in the H.10 weekly statistical release of the Federal Reserve Bank. Further information on exchange rates is set forth in “Appendix VI — Taxation and Foreign Exchange” to this prospectus.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of the Bank’s subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

### **ROUNDING**

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the Listing, the Bank has applied for the following waivers from strict compliance with the relevant provisions of the Listing Rules.

### WAIVER IN RELATION TO MANAGEMENT PRESENCE

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, the Bank must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our headquarter and principal business and operations are located, managed and conducted in the PRC. None of our executive Directors is a Hong Kong permanent resident or is ordinarily based in Hong Kong. As a result, our Bank does not, and will not, in the foreseeable future, have sufficient management presence in Hong Kong as required under Rules 8.12 and 19A.15 of the Listing Rules. Furthermore, it would be impractical and commercially unnecessary for our Bank to appoint additional executive Directors who are ordinarily resident in Hong Kong or to relocate the existing PRC based executive Directors to Hong Kong. Accordingly, the Bank has 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:

- (i) the Bank has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives of our Bank are Mr. JIA Tingyu, an independent non-executive Director, and Mr. ZHANG Ke (“**Mr. Zhang**”), one of the joint company secretaries of the Bank and the secretary to the Board, and the Bank has also appointed Ms. LEUNG Wing Han Sharon (“**Ms. Leung**”), one of the joint company secretaries of the Bank, who is ordinarily resident in Hong Kong, to be the alternative of the authorized representatives in order to assist the authorized representatives to communicate with the Hong Kong Stock Exchange;
- (ii) any meeting between the Hong Kong Stock Exchange and the Directors will be arranged through the authorized representatives or directly with the Directors within a reasonable time frame. The Bank will inform the Hong Kong Stock Exchange promptly in respect of any changes in the authorized representatives and compliance advisor of the Bank;
- (iii) each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange within a reasonable period of time upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile and email;
- (iv) each of the authorized representatives has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any matters. To enhance the communication between the Hong Kong Stock Exchange, the authorized representatives and the Directors, the Bank has implemented a policy that (a) each Director will provide his/her respective office phone number, mobile phone number, facsimile number and email address to the authorized representatives; and (b) all the Directors and authorized representatives will provide, if available, their office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Hong Kong Stock Exchange;
- (v) the Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Hong Kong Stock Exchange within a reasonable period of time; and

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (vi) the Bank has appointed Central China International Capital Limited as the compliance advisor pursuant to Rule 3A.19 of the Listing Rules to act as the additional channel of communication with the Hong Kong Stock Exchange for a period commencing from the Listing Date and ending on the date on which our Bank complies with Rule 13.46 of the Listing Rules in respect of the financial results for the first full financial year commencing after the Listing Date. Our compliance advisor will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after Listing and have full access at all times to the authorized representatives of our Bank and the Directors.

### WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, the Bank must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Pursuant to Rule 3.28 of the Listing Rules, the Bank must appoint as the company secretary an individual who, by virtue of his or her 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:

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

In assessing “relevant experience”, the Hong Kong Stock Exchange will consider the followings of the individual:

- (i) length of employment with the issuer and other issuers and the roles he or she played;
- (ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance and the Takeovers Code ;
- (iii) relevant training taken and/or to be taken in addition to be the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

The Bank has appointed Mr. Zhang and Ms. Leung as the joint company secretaries. Mr. Zhang joined our Bank in December 2014 as the secretary to the Board and has been responsible for the preparation of Board meetings and Shareholder’s meetings, disclosure of information and other administrative matters of the Bank. For more details of Mr. Zhang’s biography, see “Directors, Supervisors and Senior Management — Senior Management”. Although the Bank believes, having regard to Mr. Zhang’s past experience in handling administrative and corporate matters, that he has a thorough understanding of our Bank and the Board, Mr. Zhang does not possess the requisite qualifications as required by Rule 3.28 of the Listing Rules. Therefore, our Bank has appointed Ms. Leung, who is a Hong Kong resident and possesses such qualifications, to be a joint company secretary of our Bank. For more details of Ms. Leung’s biography, please see “Directors, Supervisors and Senior Management — Joint Company Secretaries”.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, the Bank has put in place the following arrangements:

- (i) Ms. Leung, one of the joint company secretaries of the Bank who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Mr. Zhang so as to enable him to discharge his duties and responsibilities as a joint company secretary of our Bank. Given Ms. Leung's relevant experiences, she will be able to advise both Mr. Zhang and our Bank on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;
- (ii) Mr. Zhang, one of the joint company secretaries of the Bank, will be assisted by Ms. Leung, for a period of three years commencing from the Listing Date, which should be sufficient for him to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;
- (iii) our Bank will ensure that Mr. Zhang has access to the relevant trainings and support to enable him to familiarize himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. Zhang has undertaken to attend such trainings;
- (iv) Ms. Leung will communicate with Mr. Zhang on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Bank. Ms. Leung will work closely with, and provide assistance to Mr. Zhang with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' meetings; and
- (v) pursuant to Rule 3.29 of the Listing Rules, Mr. Zhang and Ms. Leung will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarize themselves with the requirements of the Listing Rules and other legal and regulatory requirements of Hong Kong. Both Mr. Zhang and Ms. Leung will be advised by the legal advisors of the Bank as to Hong Kong law and the compliance advisor of the Bank as and when appropriate and required.

Accordingly, the Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules, provided that Ms. Leung will act as a joint company secretary and provide assistance to Mr. Zhang. The waiver is valid for an initial period of three years commencing from the Listing Date, and will be revoked immediately if Ms. Leung ceases to provide assistance and guidance to Mr. Zhang. Prior to the expiry of the initial three-year period, our Bank will re-evaluate the qualifications and experiences of Mr. Zhang. Upon the determination of our Bank that no on-going assistance to Mr. Zhang is necessary, the Bank will demonstrate to the Hong Kong Stock Exchange that, with the assistance of Ms. Leung over such three-year period, Mr. Zhang has acquired the requisite knowledge and experience as prescribed in Rule 3.28 of the Listing Rules. The Hong Kong Stock Exchange will then re-evaluate whether any further waiver would be necessary.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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### WAIVER IN RELATION TO HONG KONG FINANCIAL DISCLOSURE

Pursuant to Rule 4.10 of the Listing Rules, the information to be disclosed in respect of Rules 4.04 to 4.09 of the Listing Rules must be in accordance with best practices under the Companies Ordinance and HKFRS, IFRS or CASBE in the case of PRC issuers that has adopted CASBE for the preparation of its annual financial statements, and in the case of banking companies, the Guideline on the Application of the Banking (Disclosure) Rules issued by HKMA.

As the Bank is 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.

The Bank is currently unable to fully comply with the disclosure requirements under the Banking (Disclosure) Rules for the reasons described below. The Bank believes that the financial disclosure requirements that the Bank is unable to comply with are immaterial to potential investors of the Bank.

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

Section No.	Disclosure requirements <sup>(1)</sup>	Reason for a waiver in relation to the specific disclosure	Proposal for disclosure	Expected timing for full compliance
47	Sector information	Our Bank maintains a breakdown of loans and advances to customers by industry sector as set out in the Classification and Codes of National Economic Industries in its loans system for the purpose of filing a return to the CBRC.	For our Bank, all the loans and advances to customers are used in the PRC instead of in Hong Kong. Our Bank is subject to the supervision of the CBRC and maintains a breakdown of loans and advances to customers by industry sector based on the classification system as prescribed by the CBRC, e.g., loans are categorized into corporate loans and personal loans which are further classified into detailed subcategories by industry/nature. Our Bank has disclosed the loans and advances to customers in industry sectors in accordance with its management reports based on the CBRC classification in Note 20(b) to the Accountants' Reports as set out in Appendix IA and Appendix IB of this prospectus. Our Bank considers that the current disclosure is sufficient to serve HKMA's disclosure objectives.	N/A



## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Section No.	Disclosure requirements <sup>(1)</sup>	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-HKD currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HKD currency positions it submitted to HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period.	Our Bank's accounts are settled in Renminbi, which means that our Bank only disclosed non-RMB currency exposures instead of non-HKD currency exposures.	N/A	N/A
53-64	Additional annual disclosure to be made by an authorized institution using standardized (credit risk) approach to calculate its credit risk for non-securitization exposures.	The computation basis for risks is promulgated by the CBRC as set out in the Core Indicators (Provisional).	Our Bank can provide relevant capital structure and adequacy in accordance with the disclosure requirements from the CBRC's requirements. Our Bank believes that such requirements attempt to address similar disclosure purpose as the requirements of the Banking (Disclosure) Rules.	N/A

*Note:*

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

Save for the above, as a financial institution incorporated and based in the PRC, the Bank is required to comply with the regulatory requirements set out by the CBRC and the PBoC. Certain provisions of the Banking (Disclosure) Rules require disclosure in respect of the capital structure, capital base (in particular, relating to the level of capital adequacy), cross-border claims, liquidity ratios, PRC non-bank exposures and credit risks. The Bank has maintained and compiled data relating to these matters in accordance with the regulatory requirements of the CBRC and the PBoC. The Bank believes that the CBRC and the PBoC requirements are intended 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 the Bank attempts to comply with such requirements under the Banking (Disclosure) Rules in parallel with the CBRC and the PBoC regulations, the Bank would be required, in its view, to carry out additional work to compile similar information already required and maintained in accordance with the CBRC and the PBoC regulations. As a result, the Bank proposes to disclose the information in compliance with the CBRC and the PBoC regulations in this regard, instead of strictly following the disclosure regime provided for under the Banking (Disclosure) Rules, which will result in the compilation of similar data. The Bank is of the view that this prospectus contains sufficient information for investors to make their fully informed investment decision notwithstanding the differences between the CBRC and the PBoC requirements on the one hand, and the requirements under the Banking (Disclosure) Rules on the other hand. The Joint Sponsors concur with the Bank's view based on the reasons set out above.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Based on the above, the Bank has 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 the Bank will not fully comply with the requirements in respect of the financial disclosure provided for under the Banking (Disclosure) Rules on the condition that the Bank provides alternative disclosure in accordance with the regulatory requirements of the CBRC and the PBoC.

### WAIVER IN RELATION TO PUBLIC FLOAT

Rule 8.08(1) of the Listing Rules requires that there must be an open market in the securities for which listing is sought, which normally means that the minimum public float of a listed issuer must at all times be at least 25% of the issuer's total issued share capital. Pursuant to Rule 8.08 (1)(b) of the Listing Rules, for issuer with large market capitalization of over HK\$10 billion at the time of listing, the Hong Kong Stock Exchange may, at its discretion, accept a lower public float percentage of between 15% and 25%, where the Hong Kong Stock Exchange is satisfied that (a) the number of shares concerned; and (b) the extent of their distribution would enable the market to operate properly with a lower public float.

The Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.08(1) of the Listing Rules, pursuant to which, the public float may fall below 25% of the issued share capital of our Bank.

In support of such application, the Bank has confirmed to the Hong Kong Stock Exchange that:

- (i) the minimum public float shall be the higher of: (i) 16.82%; or (ii) such percentage of H Shares to be held by the public after the exercise of the Over-allotment Option of the enlarged issued share capital of the Bank, on the condition that the Bank's market capitalisation equal to at least HK\$10 billion at the time of the Listing;
- (ii) the Bank will make appropriate disclosure of the lower percentage of public float in this prospectus; and
- (iii) the Bank will confirm sufficiency of public float in our successive annual reports after the Listing.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Executive Directors</b>		
Mr. DOU Rongxing (竇榮興) (Chairperson)	East Room, 1/F Unit 1, Building 2 East No. 9 Tianshi Road Zhengdong New District Zhengzhou Henan Province, PRC	Chinese
Ms. HU Xiangyun (胡相雲)	Yongwei Dongtang Zhengdong New District Zhengzhou Henan Province, PRC	Chinese
Mr. WANG Jiong (王炯)	No. 109, Unit 1, Building 7 Guangfa Garden North Jingsan Road Jinshui District Zhengzhou Henan Province, PRC	Chinese
Mr. HAO Jingtao (郝驚濤)	Lianmeng Xincheng Yi Qi No. 28, Agricultural East Road Zhengdong New District Zhengzhou Henan Province, PRC	Chinese
Mr. ZHANG Bin (張斌)	No. 901, 9/F, South Unit 2 Building 4, No. 19 Xiongerhe Road Zhengdong New District Zhengzhou Henan Province, PRC	Chinese
<b>Non-executive Directors</b>		
Mr. LI Qiaocheng (李喬成)	East Unit 1, Room 1103 Building 1, Yard 116, Jiankang Road Jinshui District Zhengzhou Henan Province, PRC	Chinese
Mr. LI Xipeng (李喜朋)	Flat 72, Annex Building 1&2 Yard 11, Jingyi Road Jinshui District Zhengzhou Henan Province, PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Independent Non-executive Directors</b>		
Ms. PANG Hong (龐紅)	Flat 1402, Unit 1 Building 2, Yard 1 Shanghe Village Residency Haidian District Beijing, PRC	Chinese
Mr. LI Hongchang (李鴻昌)	East Room, 15F, Unit 1, West Building 2 Family Housing Facility Henan University of Economics and Law Zhengzhou Henan Province, PRC	Chinese
Mr. JIA Tingyu (賈廷玉)	No. 7, Xingjian Li Gansu Road Heping District Tianjin, PRC	Chinese
Mr. CHAN Ngai Sang Kenny (陳毅生)	House A1 Jade View Villa 20 Tsing Tai Road Siu Lam Hong Kong	Chinese

**SUPERVISORS**

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Mr. MA Guoliang (馬國梁) (Chairperson)	Room 301, Unit 2 Buildings 6, Yard 36 Wangcheng Road Xigong District Luoyang Henan Province, PRC	Chinese
Ms. JIA Jihong (賈繼紅)	Room 101, Building 23 Shangwu Waihuan Road Jinshui District Zhengzhou Henan Province, PRC	Chinese
Mr. SI Qun (司群)	No. 4, Unit 1, Building 1 No.29 East Renmin Road Chuanhui District Zhoukou Henan Province, PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Mr. ZHAO Ming (趙明)	No.31, Building 15 No.29, Tianfu Road Jinshui District Zhengzhou Henan Province, PRC	Chinese
Ms. LI Weizhen (李偉真)	No. 14, Building 45, East Zone Yard 61, Hongyuan Road Jinshui District Zhengzhou Henan Province, PRC	Chinese
Mr. LI Wanbin (李萬斌)	No. 5, 11/F No. 3 Shangwu Waihuan Road Zhengdong New District Zhengzhou Henan Province, PRC	Chinese
Mr. LI Xiaojian (李小建)	No. 7, 4/F, Unit 1 Building 6, Yard B College Teacher Housing Facility (North District) Jinshui District Zhengzhou Henan Province, PRC	Chinese
Mr. HAN Wanghong (韓旺紅)	Building 7, East Yard Zhuyuan, Shipai Ling Wuluo Road Hongshan District Wuhan Hubei Province, PRC	Chinese
Mr. SUN Xuemin (孫學敏)	No.8, Unit 5, Building 14 No. 26 Daxuebei Road Erqi District Zhengzhou Henan Province, PRC	Chinese

For more information of the Directors and Supervisors, please see “Directors, Supervisors and Senior Management”.

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

##### **CITIC CLSA Capital Markets Limited**

18/F, One Pacific Place  
88 Queensway  
Hong Kong

##### **J.P. Morgan Securities (Far East) Limited**

28/F, Chater House  
8 Connaught Road Central  
Central, Hong Kong

##### **CCB International Capital Limited**

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

##### **CMB International Capital Limited**

Unit 1803-4, 18/F, Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

#### Joint Global Coordinators

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##### **BOCOM International Securities Limited**

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##### **GF Securities (Hong Kong) Brokerage Limited**

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Hong Kong

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**Haitong International Securities Company Limited**

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**SPDB International Capital Limited**

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**First Capital Securities Limited**

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99 Queen's Road Central  
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**Joint Lead Managers****CLSA Limited**

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**First Capital Securities Limited**

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**Financial Advisor****AMTD Asset Management Limited**

Suite 1308, 13/F AIA Central  
1 Connaught Road Central  
Central, Hong Kong

**Legal Advisors to the Bank**

*As to Hong Kong and United States laws:*

**Paul Hastings**

21-22/F, Bank of China Tower  
1 Garden Road  
Hong Kong



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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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	<p><i>As to PRC laws:</i> <b>King &amp; Wood Mallesons</b> 20th Floor, East Tower World Financial Center 1 Dongsanhuan Zhonglu Chaoyang District Beijing, PRC</p>
<b>Legal Advisors to the Joint Sponsors and the Underwriters</b>	<p><i>As to Hong Kong and United States laws:</i> <b>Sullivan &amp; Cromwell (Hong Kong) LLP</b> 28th Floor Nine Queen's Road Central Hong Kong</p> <p><i>As to PRC laws:</i> <b>Grandall Law Firm (Beijing)</b> 9/F Taikang Financial Tower No. 38 North Road East Third Ring Chaoyang District Beijing, PRC</p>
<b>Reporting Accountants</b>	<p><b>KPMG</b> <i>Certified Public Accountants</i> 8th Floor Prince's Building 10 Chater Road Central, Hong Kong</p>
<b>Property Valuer</b>	<p><b>Jones Lang LaSalle Corporate Appraisal and Advisory Limited</b> 6/F Three Pacific Place 1 Queen's Road East Hong Kong</p>
<b>Compliance Advisor</b>	<p><b>Central China International Capital Limited</b> Suites 1505-1508 Two Exchange Square 8 Connaught Place Central, Hong Kong</p>
<b>Receiving Banks</b>	<p><b>Standard Chartered Bank (Hong Kong) Limited</b> 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong</p> <p><b>Wing Lung Bank Limited</b> 6/F, Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong</p>

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## CORPORATE INFORMATION

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<b>Registered Address and Address of Head Office</b>	Zhongke Golden Tower No. 23 Shangwu Waihuan Road Zhengdong New District Zhengzhou Henan Province, PRC
<b>Principal Place of Business in Hong Kong</b>	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Website Address</b>	<a href="http://www.zybank.com.cn">http://www.zybank.com.cn</a> <i>(The contents of the website do not form a part of this prospectus)</i>
<b>Joint Company Secretaries</b>	Mr. ZHANG Ke Unit 4, Building 2 No.61 Hongyuan Road Jinshui District Zhengzhou Henan Province, PRC  Ms. LEUNG Wing Han Sharon ( <i>FCS, FICS, FCCA and CPA</i> ) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Authorized Representatives</b>	Mr. JIA Tingyu No. 7 Xingjian Li Gansu Road Heping District Tianjin, PRC  Mr. ZHANG Ke Unit 4, Building 2 No. 61 Hongyuan Road Jinshui District Zhengzhou Henan Province, PRC
<b>Board Committees</b>	<b>Strategy and Development Committee</b> Mr. DOU Rongxing ( <i>Chairperson</i> ) Ms. HU Xiangyun Mr. WANG Jiong Mr. HAO Jingtao Mr. ZHANG Bin Mr. LI Xipeng

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## CORPORATE INFORMATION

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### **Audit Committee**

Mr. CHAN Ngai Sang Kenny (*Chairperson*)  
Mr. LI Hongchang  
Ms. PANG Hong  
Mr. JIA Tingyu

### **Related Party Transactions Control Committee**

Mr. LI Hongchang (*Chairperson*)  
Ms. HU Xiangyun  
Mr. HAO Jingtao  
Ms. PANG Hong  
Mr. JIA Tingyu

### **Risk Management Committee**

Mr. WANG Jiong (*Chairperson*)  
Mr. HAO Jingtao  
Mr. ZHANG Bin  
Ms. PANG Hong  
Mr. LI Hongchang  
Mr. JIA Tingyu

### **Nomination and Remuneration Committee**

Ms. PANG Hong (*Chairperson*)  
Mr. DOU Rongxing  
Mr. WANG Jiong  
Mr. LI Hongchang  
Mr. JIA Tingyu

### **Executive Committee**

Mr. DOU Rongxing (*Chairperson*)  
Ms. HU Xiang Yun  
Mr. WANG Jiong  
Mr. HAO Jingtao  
Mr. ZHANG Bin  
Mr. LIU Kai  
Mr. ZHAO Weihua

### **H Share Registrar**

**Computershare Hong Kong Investor Services Limited**  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## INDUSTRY OVERVIEW

*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. Our Directors confirm that, after taking reasonable care, as of the Latest Practicable Date, there has been no material adverse change in the market information presented in this section.*

### OVERVIEW

#### China's Economy

China has witnessed phenomenal economic growth in the past decades since the implementation of “reform and opening up” policy and has been the second largest economy in terms of GDP in the world since 2010. From 2011 to 2016, China’s nominal GDP increased at a CAGR of 8.7% from RMB48,930 billion to RMB74,413 billion. China’s economic growth has resulted in an increase in per capita disposable income. From 2011 to 2016, China’s per capita disposable income of urban households grew at a CAGR of 9.0% from RMB21,810 to RMB33,616. The table below sets forth information on China’s nominal GDP, per capita GDP, per capita disposable income of urban households and its growth rate for the years indicated.

	For the year ended December 31,						CAGR
	2011	2012	2013	2014	2015	2016	(2011-2016)
Nominal GDP (in billions of RMB) .....	48,930	54,037	59,524	64,397	68,905	74,413	8.7%
Per capita GDP (in RMB) .....	36,403	40,007	43,852	47,203	50,251	53,980	8.2%
Per capita disposable income of urban households (in RMB).....	21,810	24,565	26,467	28,844	31,195	33,616	9.0%
Per capita disposable income of urban households growth rate (%) .....	14.1	12.6	7.7	9.0	8.2	7.8	N/A

*Source:* National Bureau of Statistics of China, National Economic and Social Development Statistics Bulletin

China’s economy has now entered into a “New Normal” stage as it transitions from aiming at high GDP growth to optimizing its economic structure. It strives to explore and cultivate drivers for economic growth, such as domestic consumption upgrades, industrial transformation, continuous urbanization and rural economic development in China. It is projected that China’s banking industry will continue to benefit from the current economic trend.

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## INDUSTRY OVERVIEW

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### Henan Province's Economy

Henan Province is located in Central China which comprises six provinces, connecting the inner land and coastal area of China. Leveraging favorable policies encouraging economic development, Central China has experienced rapid economic growth in recent years and its GDP amounted to RMB4,016.0 billion in 2016.

Capitalizing on its strategic geographic location, Henan Province serves as a key logistics hub and important market in China. It ranked first among six provinces in Central China and 5<sup>th</sup> among all provinces in China, in terms of nominal GDP in 2016. Henan Province is the hub connecting eastern and western regions of China, embracing various industries which migrate from the coastal areas in southeast China. It has abundant natural resources and a comprehensive mix of industries, with a particular strength in digital information, equipment manufacturing, automotive and food processing industries.

Henan Province's economy has benefited and will continue to benefit from the implementation of the following PRC national strategies in relation to "Henan Province amid the Rise of Central China Plan":

- "National Core Producing Area of Grains (國家糧食生產核心區)". In August 2008, the State Council proposed the Outline for the Construction of Henan Core Area of National Food Strategy (《國家糧食戰略工程河南核心區建設規劃綱要》). In response to this plan, Henan Province has mobilized institutions in various sectors, including agriculture and financial services, to provide more support for Henan Province's sustainable long-term growth of grain production. It is expected that this will accelerate the development of agricultural industry, which thereby brings more business opportunities for local financial institutions.
- "Central Plains Economic Zone (中原經濟區)". In September 2011, the State Council issued the Guiding Opinions of the State Council on Supporting Henan Province to Accelerate the Construction of Central Plains Economic Zone (《國務院關於支持河南省加快建設中原經濟區的指導意見》), setting out a national strategic plan for the Central Plains Economic Zone, which covers the entire Henan Province, as well as 12 municipalities and two counties in the adjoining provinces of Shandong, Anhui, Hebei and Shanxi. This plan intends to propel the industrialization, urbanization and agricultural modernization of Henan Province, in particular, the development of local financial institutions and financial markets and products.
- "One Belt, One Road (一帶一路)". In September 2013, China proposed the strategic initiative of building the "New Silk Road Economic Belt" and the "21<sup>st</sup> Century Maritime Silk Road", together known as "One Belt, One Road (一帶一路)". The strategy underlines China's focuses on connectivity and cooperation among countries of Eurasia. Henan Province, located at the core of the transportation network in China, is an important hub of communication, logistics and distribution of goods and resources. To the east, Henan Province is able to connect with the "Maritime Silk Road", through integrated railway-maritime transportation and railway-highway transportation. To the west, Henan Province's capital city, Zhengzhou is the first PRC city to commence direct scheduled international freight railways between the PRC and Europe to be integrated with the "New Silk Road Economic Belt". In particular, in March 2013, in line with the "One Belt, One Road (一帶一路)" initiative, the State Council approved the construction of "Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合實驗區)", the first pilot airport

## INDUSTRY OVERVIEW

economic zone under the national planning. The zone is expected to establish a key international air logistics center and a key passenger transit hub in China, which will thereby boost the development of Henan Province’s imports and exports industry and cross-border e-commerce.

- “Zhengzhou-Luoyang-Xinxiang National Independent Innovation Demonstration Zone (鄭洛新國家自主創新示範區)”. In April 2016, the State Council passed the approval to set up a state-level innovation demonstration area collaborating three established and influential National High-Tech Industrial Development Zones located in Zhengzhou, Luoyang and Xinxiang, thereby to progressively stimulate innovation in selected industries, including high-end equipment manufacturing industry, digital information industry, new materials industry, new energy industry and biomedicine industry. In addition, this industrial cluster also emphasizes the progressive exploration and development of financial technology, with support of which, it is expected to forge an innovation highland with core-competitiveness and radiating industrial influence in Central China.
- “China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)”. In August 2016, the State Council passed the approval for Henan Province to establish a new free trade zone which encompasses provincial capital city Zhengzhou and two other cities in Henan Province, Luoyang, and Kaifeng. It is expected to implement a modern three-dimensional transportation and logistics system by expediting the construction of north, south, and east infrastructural links. The zone will also focus on transforming Henan Province into a state-of-the-art integrated hub which will serve as a key location along the “One Belt, One Road (一帶一路)” connection with Eurasia. The zone was officially established in April 2017.

The table below sets forth the GDP, value added of three major industries, fixed asset investments as well as total import and export volume of Henan Province from 2010 to 2015:

	For the year ended December 31,					CAGR	
	2010	2011	2012	2013	2014	2015	(2010-2015)
	(in billions of RMB, unless otherwise indicated and except percentages)						
Nominal GDP .....	2,309	2,693	2,960	3,219	3,494	3,700	9.9%
Value added of the primary industry .....	326	351	377	397	416	421	5.2%
Value added of the secondary industry .....	1,323	1,543	1,667	1,674	1,782	1,792	6.3%
Value added of the tertiary industry .....	661	799	916	1,148	1,296	1,488	17.6%
Total fixed asset investments .....	1,659	1,777	2,145	2,609	3,078	3,566	16.5%
Total import and export volume (in billions of US\$) .....	18	33	52	60	65	74	32.7%

Source: NBS

## INDUSTRY OVERVIEW

### 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 2011 to 2016, aggregate RMB-denominated loans and deposits of China's banking institutions grew at a CAGR of 14.2% and 13.2%, 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:

	As of December 31,						CAGR
	2011	2012	2013	2014	2015	2016	(2011-2016)
Renminbi-denominated bank loans (in billions of RMB) .....	54,794	62,991	71,896	81,677	93,954	106,604	14.2%
Renminbi-denominated bank deposits (in billions of RMB) .....	80,937	91,755	104,385	113,864	135,702	150,586	13.2%
Foreign currency-denominated bank loans (in billions of US\$) .....	539	684	777	835	830	786	7.8%
Foreign currency-denominated bank deposits (in billions of US\$) .....	275	406	439	573	627	712	20.9%

Source: PBoC

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

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

Source: CBRC

In the last decade, Large Commercial Banks, many Nationwide Joint-stock Commercial Banks and certain City Commercial Banks have improved their capital base, asset quality and profitability through capital market practices such as private placements, public offerings, and adopting the management practices in line with international standards.

## INDUSTRY OVERVIEW

The table below sets forth certain information on China's banking industry by type of banking institution as of and for the year ended and as of December 31, 2015.

	Number of institutions	Total assets			Total equity attributable to shareholders			Profit after tax		
		Amount	Market share	CAGR	Amount	Market share	CAGR	Amount	Market share	CAGR
				(2010-2015)			(2010-2015)			(2010-2015)
(in billions of RMB, except the number of institutions and percentages)										
Large Commercial Banks .....	5	78,163	39.2%	10.8%	6,123	40.3%	16.4%	893	45.2%	11.6%
Nationwide Joint-stock Commercial Banks .....	12	36,988	18.6%	19.9%	2,321	15.3%	23.2%	337	17.1%	19.9%
City commercial banks .....	133	22,680	11.4%	23.6%	1,548	10.2%	26.3%	199	10.1%	20.9%
Rural cooperative financial institutions <sup>(1)</sup> .....	2,303	24,651	12.4%	18.3%	1,783	11.7%	24.6%	223	11.3%	26.4%
Foreign banks .....	40	2,681	1.3%	9.0%	351	2.3%	13.7%	15	0.8%	14.5%
Other banking institutions <sup>(2)</sup> .....	1,768	34,182	17.1%	20.9%	3,079	20.3%	28.1%	306	15.5%	26.6%
<b>Total .....</b>	<b>4,261</b>	<b>199,345</b>	<b>100.0%</b>	<b>15.9%</b>	<b>15,205</b>	<b>100.0%</b>	<b>21.1%</b>	<b>1,974</b>	<b>100.0%</b>	<b>17.0%</b>

Source: CBRC Annual Report 2015

- (1) Comprise rural credit cooperatives, rural commercial banks and rural cooperative banks.
- (2) Comprise policy banks, private banks, Postal Savings Bank of China, new-type rural financial institutions (including village and township banks, rural financial corporations and rural mutual cooperatives) and other non-banking institutions (including financial asset management companies, Sino-German Bausparkasse, trust companies, group financial companies, financial leasing companies, money brokerage firms, auto finance companies, consumer finance companies).

### City Commercial Banks

City commercial banks are banks with branches at the municipal or higher levels, established under the PRC Company Law and the PRC Commercial Banking Law from predecessor urban credit cooperatives with the approval of the CBRC. According to the CBRC's 2015 Annual Report, as of December 31, 2015, there were 133 city commercial banks in China. City commercial banks have played active roles in maintaining regional financial stability, promoting market competition, facilitating access to financial services, and easing funding pressures for small and micro enterprises. According to the CBRC, the total assets of city commercial banks as a percentage of total assets of the banking industry in China increased from 8.2%, or RMB7,853 billion, as of December 31, 2010 to 11.4%, or RMB22,680 billion, as of December 31, 2015, representing a CAGR of 23.6%, higher than other types of commercial banks. In addition, some city commercial banks have, in accordance with regulations issued by the CBRC, begun developing diversified business models, such as establishing consumer finance companies and financial leasing companies.

Leveraging their understanding of local markets and relationships with local customers, city commercial banks are generally well-positioned to capture opportunities and market trends in local areas.



## INDUSTRY OVERVIEW

The table below sets forth certain information relating to city commercial banks in China as of the dates indicated.

	As of December 31,					
	2010	2011	2012	2013	2014	2015
	(in billions of RMB, except percentages)					
Assets .....	7,853	9,985	12,347	15,178	18,084	22,680
Liabilities .....	7,370	9,320	11,540	14,180	16,837	21,132
Shareholders' equity .....	482	664	808	997	1,247	1,548
Profit after tax .....	77	108	137	164	186	199
NPL ratio .....	0.9%	0.8%	0.8%	0.9%	1.2%	1.4%

Source: CBRC Annual Report 2015

### HENAN PROVINCE'S BANKING INDUSTRY

The banking industry in Henan Province has experienced rapid growth along with the development of Henan Province's economy. According to the Henan Statistical Yearbook published by the Statistical Bureau of Henan, as of December 31, 2016, the total deposits and loans of the financial institutions in the banking industry of Henan Province were RMB5,498.0 billion and RMB3,714.0 billion respectively, representing CAGRs of 15.5% and 16.0% as compared to December 31, 2011, respectively.

The table below sets forth the total balance and average CAGR of the deposits and loans of financial institutions in the banking industry of Henan Province as of the dates indicated:

	As of December 31,						CAGR
	2011	2012	2013	2014	2015	2016	(2011-2016)
	(in billions of RMB, except percentages)						
Total deposits .....	2,677.5	3,197.0	3,759.1	4,193.1	4,828.2	5,498.0	15.5%
Total loans .....	1,764.9	2,030.4	2,351.1	2,758.3	3,179.9	3,714.0	16.0%

Source: CBRC Henan Office

### COMPETITIVE LANDSCAPE

As a city commercial bank based in Henan Province, we mainly compete with other commercial banking institutions with operations in Henan Province. As of December 31, 2016, our total assets, total deposits from customers, total loans to customers and total equity were RMB433,071.4 million, RMB245,352.8 million, RMB164,888.5 million, RMB35,498.6 million, respectively. In 2016, our net profit was RMB3,360.1 million. According to CBRC Henan Office, we ranked the first among all city commercial banks headquartered in Henan Province in terms of total assets, total deposits from customers, total loans to customers and total shareholders' equity as of and for the year ended December 31, 2016.

## INDUSTRY OVERVIEW

The table below sets forth key performance indicators as compared to other four city commercial banks in Henan Province as of and for the year ended December 31, 2016.

As of and for the year ended December 31, 2016							
	Total outlets	Total assets	Total shareholders' equity	Operating income	Net profit	Total deposits	Total loans
(in millions of RMB, except for the number of outlets)							
Our Bank <sup>(1)</sup> .....	439	433,071	35,499	11,804	3,360	245,353	164,889
Bank of Zhengzhou Co., Ltd. <sup>(2)</sup> .....	132	366,148	21,861	9,981	4,045	216,390	111,092
Bank of Luoyang Co., Ltd. <sup>(3)</sup> .....	156	183,076	13,871	5,326	2,275	114,281	61,645
Jiaozuo Bank of China Travel Service Co., Ltd. <sup>(3)</sup> .....	70	61,209	6,959	1,784	545	33,954	23,837
Bank of Pingdingshan Co., Ltd. <sup>(3)</sup> ....	38	71,082	7,047	1,903	610	45,794	28,990
<b>Total</b> .....	<b>835</b>	<b>1,114,586</b>	<b>85,237</b>	<b>30,798</b>	<b>10,835</b>	<b>655,772</b>	<b>390,453</b>

Sources:

- (1) Financial data are prepared in accordance with IFRS.
- (2) 2016 Financial Report of Bank of Zhengzhou.
- (3) CBRC Henan Office.

### INDUSTRY TRENDS

#### Deepening of the Interest Rate Liberalization

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, as part of the government's efforts to reform the financial system to support its balanced and sustainable growth, China has implemented a series of initiatives to move towards market-based lending and deposits rates.

In July 2013, the PBoC abolished the floor rates for RMB-denominated loans (excluding interest rates on residential mortgage loans). In October 2015, the PBoC removed the cap on deposit interest rates for commercial banks. Effective May 1, 2015, The Deposit Insurance Regulations (《存款保險條例》) paved the way for a smooth establishment of a deposit insurance system in China which would thereby push ahead the liberalization of the interest rate mechanism.

Although the on-going interest rate liberalization may give banks greater flexibility in deciding lending and deposits rates, the overall impact of such scheme remains uncertain. The interest rate liberalization may intensify pricing competition in the PRC banking industry, which could reduce their net interest margins and profitability and affect their business performance and results of operations.

#### Strengthened Regulation and Supervision

In recent years, the PBoC and the CBRC have promulgated a series of regulations to enhance the regulation and supervision of China's banking industry and cultivate an orderly market for competition. These regulations aim to, among other things, strengthen supervision over capital adequacy, enhance risk management, improve modern corporate governance and enhance regulation of Internet finance. The CBRC has also issued a series of regulatory requirements on the real estate industry and local government financing vehicles, wealth management products as well as interbank

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business, requiring commercial banks in China to strengthen risk control over each of these types of business. For more information, please see “Supervision and Regulation”. As a result, financial institutions in China, including banks, are expected to continue to improve the quality of its loans and the integrity of its risk management systems.

### **Challenges and Opportunities Arising from Internet Finance**

Traditional banking services are facing increasingly fierce challenges from financial services utilizing Internet technologies, such as online or mobile banking services, peer-to-peer financing products and settlement services provided by online or mobile commercial platforms, or electronic currencies. With further penetration of Internet in China, it is expected that banks have to further invest innovative products and services that utilize latest technologies with convenient accesses and cost-efficient management to successfully maintain their competitiveness and capture active market demand. As a result, the transition from providing services only through physical networks to integrating outlets with electronic and Internet-based channels, has become and will continue to be a major focus for commercial banks in China.

### **Increasingly Important Role of City Commercial Banks in China**

Unlike large commercial banks and nationwide joint-stock commercial banks, city commercial banks are generally permitted to provide banking services only within certain geographic regions. Guided by policies issued by relevant regulatory authorities, city commercial banks should continue to pursue differentiation and unique development strategies, take full advantage of their “small, quick and flexible” features, and focus on providing a wider range of financial services to small and micro enterprises together with urban and rural residents in the local areas.

In recent years, certain city commercial banks have initiated programs including restructuring, introducing of strategic investors, or initial public offerings so as to strengthen their capital base. In addition, some city commercial banks have, in accordance with regulations issued by the CBRC, begun developing diversified operations business models, for example establishing consumer finance companies and financial leasing companies.

### **Increasing Importance of Banking Services to Small and Micro Enterprises**

A huge number of small and micro enterprises in China have been playing an increasingly significant role in the economic growth. To better facilitate the development of small and micro enterprises and meet their financing demands, the State Council, the PBoC and the CBRC have taken measures to encourage financial institutions to offer innovative financial products and credit services to them. These include the following:

- *Broader coverage and higher-quality services.* Commercial banks are encouraged to expand their distribution networks and scale their business by launching more kinds of products, which could target more small and micro enterprises. In addition, they are encouraged to improve their service quality;
- *Lower reserve ratio.* In June 2014, the PBoC lowered the RMB statutory deposit reserve ratio by 0.5% for commercial banks which satisfied the prudent operational requirements for granting loans to small and micro enterprises and borrowers in the agricultural industry or located in rural areas. In February 2015, the RMB statutory deposit reserve ratio for commercial banks that satisfy conditions mentioned above was further lowered by 0.5%; and

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- *Tailor-made products.* The CBRC encourages banking institutions to put more efforts in designing tailor-made financial products that specifically meet small and micro enterprises' financing needs, for example, adjusting the maturity of the products that matches the cash flow of small and micro enterprises.

In January 2016, the State Council issued the Plan for Promoting Inclusive Finance (2016-2020) (推進普惠金融發展規劃(2016-2020年)), encouraging large banks to accelerate the establishment of specialized institutions for small and micro enterprises and supporting the registration and issuance of small and micro enterprises bonds by commercial banks to increase their financing sources. With commercial banks' focus and the constant support from favorable government policies, it is expected that banking services for small and micro enterprises will become more crucial in the overall banking business in China.

### Increasing Demands for Personal Finance

With the rapid growth of the PRC economy, the per capita income of domestic residents in China has been increasing in the past three decades. According to the NBS, urban households' per capita disposable income increased from RMB21,810 in 2011 to RMB33,616 in 2016, at a CAGR of 9.0%, which indicates the growing consumption of domestic residents.

The table below sets forth the per capita disposable income of PRC domestic urban households, the total amount of RMB-denominated deposits of urban and rural households, 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
	2011	2012	2013	2014	2015	2016	(2011-2016)
Per capita disposable income of urban households (RMB) .....	21,810	24,565	26,955	28,844	31,195	33,616	9.0%
Total amount of RMB-denominated deposits of urban and rural households (in billions of RMB) .....	34,364	39,955	44,760	48,526	54,607	59,775	11.7%
Total amount of domestic personal RMB-denominated loans (in billions of RMB) .....	13,601	16,131	19,850	23,141	27,021	33,361	19.7%
As a percentage of total domestic loans .....	24.9%	25.7%	27.7%	28.4%	28.8%	31.29%	N/A

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

As a result of accumulated personal wealth of domestic residents and growing disposable income of urban and rural households, PRC customers have been looking for more diversified personal financial products and services. Such trend has thereby become a major driving force for PRC commercial banks' growth.

Following such trend, PRC commercial banks have begun offering personalized and customized products and services for a growing number of mid- and high-end customers, for instance, wealth management products, asset management services and private banking services, to meet their diversified wealth managing demands.

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According to the 2016 China Wealth Report, jointly issued by Boston Consulting Group and China Industrial Bank, from 2015 to 2020, the investable financial assets of high net worth individuals (HNWIs) are forecasted to increase at an average annual rate of 15%, significantly higher than the projected GDP growth rate of 6.5% in China over the same period. With such an expanding class of wealthy individuals and growing demands for wealth management services, it is expected that personal finance business provided by commercial banks will continue to grow in the PRC banking industry.

### **The Development of Venture Lending Brings More Opportunities for Commercial Banks**

Restricted by PRC Commercial Banks Law (《中華人民共和國商業銀行法》), commercial banks are generally not allowed to make any equity investments in non-bank financial institutions and enterprises. However, as the equity financing for enterprises has become growingly popular and important in recent years, commercial banks' traditional business model of deposit and loan services has no longer been able to satisfy the corporate banking customers' various financing needs.

In April 2016, the CBRC, the Ministry of Science and Technology and PBoC jointly issued the Guidance Opinion on Supporting Banking Financial Institutions Making Venture Lending in Science and Technology Innovation Start-up Companies (Yinjianfa [2016] 14) (《關於支持銀行業金融機構加大創新力度開展科創企業投貸聯動試點的指導意見》(銀監發(2016)14號)), which approves a pilot program to allow certain commercial banks to explore innovative investment model in which a commercial bank extends loans to, while its subsidiaries which have investing functions, make equity investments in science and technology innovation start-up companies.

It is expected that commercial banks are going to benefit from such innovative investment model through which they are able to share the benefits of the growth of start-up companies while at the same time supporting the companies' development. In addition, by cooperating with investment companies which have extensive experience in investing, commercial banks are able to identify and control risks more effectively. Overall, such innovative investment model will provide the commercial banks with broader investing channels and greater investing flexibility, which will thereby upgrade their traditional business operations and enable them to become more competitive in the financial market.

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The banking industry in the PRC is highly regulated. The principal regulatory authorities of the PRC banking industry include the China Banking Regulatory Commission (“**CBRC**”) and the People’s Bank of China (“**PBoC**”). The 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 mainly include the PRC Commercial Banking Law, the PRC PBoC Law and the PRC Banking Supervision and Regulatory Law, and respective 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 of the PRC financial industry.

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

Since 1995, the regulatory regime of the PRC banking industry has undergone further significant reform and development. The CBRC was established in April 2003 and took over from PBoC its role as the primary regulator of the PRC banking industry. The CBRC was mandated to implement reforms, minimize overall risks, promote stability and development and enhance the international competitiveness of the PRC banking industry. In December 2003, the PRC Commercial Banking Law and the PRC PBoC Law were amended.

On February 1, 2004, the PRC Banking Supervision and Regulatory Law (《中國銀行業監督管理法》) came into effect and set out the regulatory functions and responsibilities of the CBRC. On 31 October 2006, the PRC Banking Supervision and Regulatory Law was amended and came into force with effect from 1 January 2007.

On August 29, 2015, the Standing Committee of the National People’s Congress promulgated the Decision of the Standing Committee of the National People’s Congress on the Amendment to the PRC Commercial Banking Law (《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 amended PRC Commercial Banking Law was effective from October 1, 2015.

### PRINCIPAL REGULATORS

#### CBRC

##### *Functions and Powers*

The CBRC is the principal regulatory authority for financial institutions of the banking industry 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 public deposit-taking financial institutions and policy banks, as well as certain non-banking financial institutions. The CBRC is also responsible for the supervision and regulation of the entities

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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, the CBRC's primary regulatory responsibilities include:

- formulating and issuing regulations and rules governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting financial licenses to commercial banks and their branches and sub-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 prudent guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- establishing emergency treatment programs with relevant authorities and formulating emergency treatment plans;
- imposing corrective and punitive measures for violations of the relevant 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 legitimate rights and interests of depositors and other customers when a credit crisis has occurred or may occur.

### *Examination and Supervision*

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

If a banking institution is not in compliance with the relevant banking regulations, the CBRC is authorized to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, withholding the approval for engaging in new businesses, imposing restrictions on dividends and other forms of distributions and asset transfers, imposing an order on controlling shareholders to transfer their equity interest or restricting the rights of the relevant shareholders, imposing an order to adjust or restrict the rights of directors and senior management, and suspending the opening of new branches and sub-branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by the CBRC, the

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CBRC may order the banking institution to suspend operations and may revoke its operation license. When there is, or is likely to be, a credit crisis within a banking institution, which may materially impact the legitimate interests of depositors and other customers, the 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, the 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 the law;
- issuing the Renminbi and administering its circulation;
- supervising and regulating the interbank lending market and the interbank bond market;
- implementing foreign exchange controls, supervising and regulating the interbank foreign exchange market;
- supervising and regulating the gold market;
- holding, administering and operating state foreign exchange reserves and gold reserves;
- managing the national treasury;
- safeguarding the normal operation of payment and clearing systems;
- guiding and orchestrating anti-money laundering activities in the financial industry and being responsible for monitoring fund flows in respect of anti-money laundering;
- being responsible for the statistics, surveys, analysis and forecasts of the financial industry; and
- participating in international financial activities as the central bank of the PRC, etc.

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》), which authorizes the PBoC to take the lead at the joint meetings, with CBRC, CSRC, CIRC and SAFE as the primary members. NDRC and MOF may be invited to attend the joint meetings, when necessary.

### **MOF**

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

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



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- drafting laws, regulations and rules concerning fiscal, financial and accounting management;
- managing state-owned financial assets, administering the appraisal of state-owned assets and participating in drafting the relevant systems for governing the management of state-owned financial assets; and
- supervising and examining the implementation of financial and taxation rules and policies, reporting on critical issues in the management of fiscal income and expenditure and managing the financial supervision commissioners' office.

### **Other Regulatory Authorities**

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

## **LICENSING REQUIREMENTS FOR ADMISSION TO THE INDUSTRY**

### **Basic Requirements**

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

- the articles of association must be in compliance with the PRC Company Law (《中國公司法》), the PRC Commercial Banking Law and the relevant requirements of the CBRC;
- the registered capital must be paid-in capital, and the minimum registered capital is RMB100 million for a city commercial bank;
- the directors and senior management 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 are suitable for business operation; and
- the information technology structure which satisfies the needs of business operation has been set up, the information technology system supporting business operation is necessary, safe and complies 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 the CBRC or its local branches to undertake significant changes, including:

- change of name of head office, a branch or sub-branch;
- change of registered capital;
- change of domicile of headquarters, a branch or a sub-branch;
- adjustment of business scope;

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- 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;
- opening or closing a branch or a sub-branch;
- merger or spin-off; and
- dissolution and bankruptcy.

### **Establishment of Branches**

#### ***Branches within the province (or autonomous regions or directly administered municipalities) where the bank is registered***

To establish a local branch, a city commercial bank must apply to the relevant local office of the CBRC in the province (or autonomous regions or directly administered municipalities) where it is registered for approval and issuance of a finance license. On April 16, 2009, the General Office of the CBRC issued the Opinions on Adjusting the Licensing Policies for the Establishment of Branch Outlets by Small and Medium 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 the unified working capital requirement; and
- the number of branches and sub-branches of a city commercial bank within the province (autonomous region or directly administered municipality) where it is registered is no longer subject to any limit.

#### ***Branches outside the bank's residence province (or autonomous region or directly administered municipality) where the bank is registered***

For a city commercial bank to establish branches outside the province (or autonomous region or directly administered municipality) where it is registered, an approval from the CBRC is required. The Opinions on Adjusting the Licensing Policies for the Establishment of Branch Outlets by Small- and Medium 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)》) provides for a "Three-Step" principle for establishing branches by a city commercial bank outside the province (or autonomous region or directly administered municipality) where it is registered, i.e., opening branches within the province where it is registered preceding opening any branch in other provinces; opening branches within the local economic region preceding opening any branch in other economic regions; and, thereafter opening branches without geographical restrictions in the country. Since 2011, the CBRC has temporarily suspended approval on new applications from city commercial banks seeking to expand and establish branches outside their residence provinces. We have no branches outside Henan Province so far. We are subject to the CBRC's temporary suspension on the expansion of city commercial banks beyond their residence province and further changes thereto. Our application to establish branches and sub-branches in Henan Province will not be affected by the CBRC's temporary suspension of approval policy.

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### 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 make payment as agents and acting as insurance agents;
- providing safe deposit box service; and
- other businesses approved by the banking regulatory authorities under the State Council.

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

### REGULATION ON PRINCIPAL COMMERCIAL BANKING ACTIVITIES

#### Lending

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

The CBRC has also issued guidelines and measures to control risks in connection with related party loans. Please see “ — Corporate Governance and Internal Controls — Transactions with Related Parties”.

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

- Under the Guidelines on Risk Management of Mergers and Acquisitions Loans for Commercial Banks (《商業銀行併購貸款風險管理指引》) promulgated by the CBRC on February 10, 2015, commercial banks are required to establish and implement business procedures and internal control systems after reporting the same to the CBRC. A commercial bank may not finance mergers and acquisitions unless it has, amongst others: (i) a sound risk management system and an effective internal control system; (ii) a capital adequacy ratio of no less than 10%; (iii) all regulatory indicators comply with regulatory requirements; and (iv) there is a professional team responsible for due diligence and risk assessment of merger and acquisition loans. These guidelines also set out requirements on assessment and control of risks associated with mergers and acquisitions, such as overall strategic risk, legal and compliance risk, integration risk, operational risk and financial risk. Where cross-border transactions are involved, analysis on, among other things, country risk, exchange rate risk and risk of cross-border remittance of funds are also required. The total balance of merger and acquisition loans approved by a commercial bank is subject to a cap of no more than 50% of its net tier-one capital for the corresponding fiscal period. Commercial banks are required to set up a corresponding exposure limits system for merger and acquisition loans by individual customer, group customer, industry, and country or region, in accordance with its business development strategies for merger and acquisition loans business, and report to the CBRC or its branch. The balance of merger and acquisition loans approved by a commercial bank to an individual borrower may not exceed 5% of the net tier-one capital of the bank for the corresponding fiscal period. A merger and acquisition loan may not exceed 60% of the underlying transaction price. The tenor of merger and acquisition loans may not exceed seven years;
- Under the Interim Measures for the Administration of Fixed Asset Loans (《固定資產貸款管理暫行辦法》) promulgated by the CBRC on July 23, 2009, commercial banks are required to improve their internal control system, manage the entire lending cycle, establish a risk management system for fixed asset loans and an effective mechanism for balancing different positions. Commercial banks are also required to strengthen the management of the use of loan proceeds and improve the management of granting and repayment of loans. In addition, commercial banks are required to agree with borrowers on contractual terms that are material to controlling credit risks, and establish a loan quality monitoring system and a loan risk alert system; and
- The Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》), promulgated by the CBRC on February 12, 2010, requires commercial banks to establish effective internal control and risk management systems in order to monitor the use of working capital loans and get full access to customer information. Commercial banks are required to take reasonable and prudent measures to assess the borrower's actual borrowing needs based on its business operations. The amount of loans granted may not exceed the borrower's actual working capital needs for its business operations. Commercial banks are also required to set out written rules to ensure that working capital loans are used for legitimate purposes. In particular, these loans may not be used for investments in fixed assets, equity investments or for other prohibited purposes.

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In addition, the CBRC and other relevant authorities have issued a number of regulations and rules concerning loans and credit granted to certain specified industries and customers in an effort to control credit risk of PRC commercial banks or for macroeconomic control purposes. Set out below is a summary of certain rules and regulations applicable to us.

- 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》) promulgated by the CBRC on June 4, 2010 requires commercial banks to establish risk management systems for the group borrower credit business and report the same to the banking regulatory authorities for filing. If the credit balance of a commercial bank to a single group borrower exceeds 15% of its net capital, the commercial bank is required to take remediation measures to diversify the risks through syndicated loans, loan participation and loan transfer. In line with its prudent supervision requirement, the banking regulatory authorities may lower the ratio of the relevant credit balance;
- The Interim Measures for the Administration of Personal Loans (《個人貸款管理暫行辦法》) promulgated by the CBRC on February 12, 2010 requires commercial banks to establish an effective full-process management framework and risk management system for personal loans and specify certain required conditions for personal loan applications. This rule also requires that the use of personal loans complies with relevant laws and policies. Commercial banks are required to specify the purpose of such personal loans in loan agreements and may not extend personal loans with no designated purpose;
- The Guidelines on Project Finance Business (《項目融資業務指引》) promulgated by the CBRC on July 18, 2009 requires banking institutions to establish a sound operational process and risk management system. Banking institutions are required to fully identify and evaluate risks associated with the project construction and operation, including policy risk, financing risk, completion risk, product market risk, overspending risk, raw material risk, operational risk, exchange rate risk, environmental risk and other related risks. Banking institutions are also required to focus on borrowers' repayment ability and evaluate risks associated with the project by focusing on the aspects of technical feasibility, financial viability and loan repayment sources of the project. In addition, banking institutions must ensure that borrowers set up a designated account to receive all revenue from the project, and must monitor such account and take actions in case of unusual movements;
- The Administrative Measures on Automobile Loans (《汽車貸款管理辦法》) promulgated by the CBRC on August 16, 2004 requires commercial banks to establish a credit rating system and monitoring system in connection with automobile loans. These measures also set out certain required conditions in relation to applications for automobile loans. In addition, these measures limit the principal amount of automobile loans to 80% of the price of vehicles for self-use purposes, 70% of the price of vehicles for commercial purposes and 50% of the price of second-hand vehicles. Commercial banks are also required to ensure that borrowers provide mortgages over their vehicles or other types of guarantees for automobile loans;
- The Guiding Opinions of PBoC, CBRC, CSRC and CIRC on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Certain Industries through Financial Services (《中國人民銀行、銀監會、證監會、保監會關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見》) promulgated by the PBoC, CBRC, CSRC and CIRC on December 22, 2009 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

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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, grant credit based on the principle of differentiated treatment. For enterprises and projects that revitalize key industries, meet market entry requirements and comply with the bank's lending policy, credit should be granted in a timely and efficient manner. For enterprises and projects that fail to satisfy the abovementioned conditions, credit should not be granted. For projects in industries with overcapacity, credit should be approved only after strict examination;

- The Notice of CBRC on the Publication and Distribution of Green Credit Guidelines (《中國銀監會關於印發綠色信貸指引的通知》) issued by the CBRC on February 24, 2012 requires banking institutions to support energy saving, emission reduction and environmental protection, and caution against 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 the course of their credit business, and to establish the relevant risk exposure management systems. Banks are also required to explicitly declare their support for green credit, formulate specific guidelines for granting credit facility to restricted industries and industries with material environmental and social risks, carry out flexible differentiated credit granting policies, and implement risk management systems. Specifically, banking institutions are required to consider the characteristics of customers, conduct comprehensive due diligence investigations on environmental and social risks and are prohibited from granting credit to customers that fail to comply with relevant requirements of environmental and social performance. For customers with material environmental and social risks, banking institutions shall request such customers to submit environmental and social risk reports and add in specific terms on the control of such risks in the loan agreements. Moreover, banking institutions are required to implement specialized post-lending management measures for customers with potential material environmental and social risks, and adopt proper mitigating measures in a timely manner and report to the regulatory authorities upon occurrence of incidents of material environmental and social risks;
- The Notice of CBRC and National Development and Reform Commission on the Publication and Distribution of the Energy Efficiency Credit Guidelines (《中國銀監會、國家發展和改革委員會關於印發能效信貸指引的通知》) issued by the CBRC and NDRC on January 13, 2015 encourages banking institutions to grant credit to energy consuming entities to facilitate energy saving and emission reduction. According to such Guidelines, banking institutions may grant credit facilities to finance energy efficiency projects of energy consuming entities and to finance energy management contracts undertaken by companies providing energy saving services. Banking institutions are required to further enhance its credit risk management capability for energy saving credit facilities through a variety of methods, including (i) specifying the admission requirements for energy saving projects, energy consuming entities and companies of energy saving services; (ii) strengthening due diligence investigations that support energy efficiency credit and obtaining overall knowledge of the borrower to assess risks; (iii) improving contract management and post-disbursement management of energy efficiency credit; and (iv) establishing credit monitoring and risk alert mechanisms;

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- 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》) issued by the CBRC on August 30, 2004 require commercial banks to establish review and approval criteria for real estate loans (including land reserve loans, property development loans, personal residential mortgage loans, and commercial property mortgage loans) and to establish risk management and internal control systems addressing market risk, legal risk and operational risk in the real estate loan market. Commercial banks are not allowed to grant any form of loans to borrowers who have not yet obtained land use right certificates and relevant permits. The CBRC and its branches conduct periodic inspections on the implementation of these guidelines;
- The Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》) issued by the State Council on April 17, 2010 requires commercial banks, among other things, to strengthen the pre-lending examination and post-lending management of loans to real estate development enterprises, and prohibits commercial banks from granting new development loans to real estate developers which have idle land parcels or which are involved in land speculation activities. The Notice of the General Office of the State Council on Further Regulation and Control of the Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》) issued by the General Office of the State Council on February 26, 2013 further prohibits commercial banks from providing loans for new development projects to real estate developers which have illegal and non-compliance conduct such as hoarding idle land and participating in speculative land trading, withholding property units to limit sales and push up property prices;
- 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》) issued by the PBoC and CBRC on September 29, 2014 encourages banking institutions, among other things, to support those squatter area reconstruction and affordable housing construction projects that meet conditions for credit while keeping risks at a controllable level and maintaining sustainable financial standing. The maturity of loans granted to public rental housing and squatter area reconstruction may be extended to no more than 25 years. Subject to the need of risk prevention, banking institutions are required to allocate their credit resources reasonably to support real estate enterprises with sound qualifications and operational integrity to develop and construct ordinary commodity housing, and to meet the reasonable financing demand for projects under construction and on-going construction projects with good market outlook;
- 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》) issued by the PBoC and CBRC on September 29, 2010, which consistently implements the requirements of residential housing loans as stipulated in the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》), requires all commercial banks to suspend the granting of housing loans to families that purchase the third or more residential properties or to non-local residents who are unable to provide evidence of payments of local tax or social insurance of more than one year. Pursuant to the notice, for a first-time purchaser of any commercial housing property, the minimum down payment ratio is adjusted to 30%, while the minimum down payment for a second home buyer is strictly imposed at not less than 50% of the purchase price with the interest rate being no less than 110% of PBoC benchmark interest rates on loans.

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- On September 29, 2014, the 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 ratio at 30% and the minimum interest rate at 70% of PBoC benchmark interest rates on loans for a family purchasing a home for self-use for the first time. Banking institutions should apply the policies for first home buyers to families who already own a residence, have fully repaid the relevant residential mortgage loans, and are applying for a loan to purchase another ordinary residential property to improve their living conditions. Furthermore, in cities that have lifted or have not imposed the restrictions for property purchasing, where a family that owns two or more residential properties and has repaid in full all relevant loans and applies for a loan to purchase another residential property, banking institutions shall prudently determine the down payment ratio and the loan interest rate, taking into account the borrower's ability to make repayment and credit standing;
- On August 27, 2015, the Ministry of Housing and Urban-Rural Development of the PRC, MOF and PBoC have jointly issued the Notice on Adjustment to the Minimum Down Payment Ratio for Personal Housing Loans from the Housing Provident Fund (《住房和城鄉建設部、財政部、中國人民銀行關於調整住房公積金個人住房貸款購房最低首付款比例的通知》), pursuant to which if a household owns one residential property and has fully repaid the corresponding mortgage loan and applies for an entrusted loan from the housing provident fund again to purchase a residential property for upgrading purpose, the minimum down payment ratio would be lowered from 30% to 20% with effect from September 1, 2015. Beijing, Shanghai, Guangzhou and Shenzhen may decide at their own discretion, based on the uniform national policy and combined with their local practical circumstances, the minimum down payment ratio for the purchase of the second residential property financed by an application for housing provident fund entrusted loans;
- The Notice of PBoC and CBRC on Issues Concerning the Further 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進一步完善差別化住房信貸政策有關問題的通知》) issued by the PBoC and CBRC on September 24, 2015 requires that in cities where “restrictions on purchase” have not been implemented, for households which apply for commercial individual housing loans for the purchase of their first residential property, the minimum down payment ratio has been adjusted to not less than 25%; the branches of the PBoC and CBRC shall observe the principles of “providing guidance by categories, imposing policy by regions” to strengthen communication with local governments, and according to the conditions of different cities under their jurisdiction and based on uniform national credit policies, guidance on the autonomous mechanism to determine the pricing of interest rate in all provincial level markets shall be provided such that the minimum down payment ratio of commercial individual housing loans shall be determined autonomously within the region under their jurisdiction by considering the actual local conditions;
- The Notice of PBoC and CBRC on Issues concerning Adjustment to the Housing Loan Policies for Individuals (《中國人民銀行、中國銀行業監督管理委員會關於調整個人住房貸款政策有關問題的通知》) issued by the PBoC and CBRC on February 1, 2016 requires that in cities where “restrictions on purchase” have not been implemented, for households which apply for commercial individual housing loans for the purchase of their first residential property, the minimum down payment ratio is 25% in principle, with downward floating adjustment of 5 percentage points for all regions; if a household owns one residential property but has not fully repaid the corresponding mortgage loan and applies for a commercial individual housing loan again to purchase an ordinary residential property for upgrading purpose, the minimum down payment ratio has been adjusted to not less than



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30%. In cities where “restrictions on purchase” have been implemented, policy on individual housing loans will be implemented according to its original requirements. Banking institutions should combine the minimum down payment ratio requirements, as determined by autonomous mechanism for the pricing of interest rate in all provincial level markets, with factors such as the policy of granting commercial individual housing loans and risk prevention and controls of the respective banking institution, as well as other factors, such as the creditworthiness and repayment ability of the borrower, to reasonably determine the specific down payment ratio and interest rate level;

- Pursuant to the requirements of, inter alia, the Notice of the State Council on Relevant Issues Concerning Strengthening the Administration of Local Government Financing Vehicles (《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》) issued by the State Council on June 10, 2010, 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》) issued by the CBRC on December 16, 2010, the Notice of CBRC on Further Implementation of Risk Control and Management of Local Government Financing Vehicles in 2011 (《中國銀監會關於切實做好2011年地方政府融資平台貸款風險監管工作的通知》) issued by the CBRC on March 31, 2011 and 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》) issued by the CBRC on March 13, 2012, banking institutions are required to strictly implement pre-lending investigation, examination during the course of lending and post-lending inspection 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 coordinate and consider the debt burdens of local governments and the potential risks and expected losses of loans to LGFVs, to provide reasonable allowance for impairment losses and calculate the risk-weighting of capital adequacy ratio on the basis of full coverage, basic coverage, semi-coverage and no coverage of cash flows. On April 9, 2013, 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年地方政府融資平臺貸款風險監管的指導意見》) was issued by the CBRC, pursuant to which all banks are required to impose aggregate loan limits on LGFVs and not to expand the scale of loans to LGFVs. The opinions also require that, for LGFVs with a cash flow coverage ratio lower than 100% or a gearing ratio higher than 80%, the proportion of their loans to the total loans granted by all vehicles of the bank shall not exceed that of the previous year, and the bank shall take measures to gradually reduce disbursements of loans and increase efforts for recovery of loans;
- Pursuant to the requirements of 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》) issued by the State Council on September 21, 2014, 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 enterprises whose debt may become the government’s contingent liabilities, financial institutions shall strictly regulate credit management by practicably enhancing risk identification and risk management. Financial institutions shall undertake on their own any consequential losses incurred as a result of providing financing to governments in violation of applicable laws or regulations, and the relevant authorities and persons shall be held legally liable according to laws and regulations, including the PRC Commercial Banking Law and the PRC Banking Supervision and Regulatory Law. Pursuant to the Opinions on

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Properly Solving Subsequent Financing Issues of the On-going Projects of Local Government Financing Vehicles (《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的意見》) issued by the MOF, PBoC and CBRC, which were forwarded by the General Office of the State Council on May 11, 2015 and implemented on the same date, banking institutions are required to properly solve subsequent financing issues of the on-going projects of financing vehicles by implementing classification management to differentiate existing items and new additional items and providing financing in compliance with the law to satisfy practically the needs of facilitating economic development and preventing fiscal and financial risks. Banking institutions shall observe the principles of controlling the total amount and applying differentiated treatment in supporting the financing needs of existing on-going projects of the financing vehicles to ensure the orderly progress of on-going projects. Banking institutions are required to achieve both the objectives of promoting development and preventing risks, strictly regulate credit management, and practically strengthen risk identification and risk control. For loans to on-going projects of financing vehicles, banking institutions are required to make their own decisions, assume risks by themselves and practically perform subsequent financing management based on prudent estimation of the repayment ability of financing vehicles and the revenue from on-going projects and considering the debt repayment ability of local governments on consolidated basis. Banking institutions are required to conscientiously examine the use of loan proceeds, to focus support on the on-going projects of financing vehicles in the areas of, among other things, agricultural irrigation facilities, affordable housing projects and urban rail transit, and ensure that the loans are consistent with the development needs of industries and development plans of industrial parks; and

- According to the requirements of the Guiding Opinions of the General Office of the 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》) issued by the General Office of the State Council on July 1, 2013, the Implementation Opinions of the General Office of the State Council on Financial Support for the Development of Small 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》) issued by the General Office of the State Council on August 8, 2013 and the Opinions of CBRC on Advancing the Financial Services for Small and Micro Enterprises (《中國銀監會關於深化小微企業金融服務的意見》) issued by the CBRC on March 21, 2013, banking institutions should adhere to the commercial sustainability principle and focus support on the financing needs of small and micro enterprises that conform with national industrial and environmental policies, facilitate the creation of more jobs, and have the intention and capability to repay the loans. Subject to commercial sustainability and effective risk control, banking institutions should adjust the credit structure proactively and make annual credit plans separately for small and micro enterprises.

The CBRC has also issued corresponding guidelines and measures for controlling the relevant risks of loans for related parties. Please refer to “— Corporate Governance and Internal Control — Transactions with Related Parties”.

### **Foreign Exchange Business**

Commercial banks are required to obtain approvals from the PBoC, CBRC and SAFE or their respective branches to conduct the business of foreign exchange. Under PRC anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Center any large or suspicious foreign exchange transactions which they encounter on a timely basis.

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### Securities and Asset Management Businesses

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

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

Under the Administrative Measures on the Custodian Business for Securities Investment Fund (《證券投資基金託管業務管理辦法》) promulgated by the CSRC and CBRC on April 2, 2013, a commercial bank may be permitted to engage in the custodian business for securities investment funds, if, among other requirements, such commercial bank had year-end net assets of not less than RMB2.0 billion for each of the previous three financial years and if its capital adequacy ratio fulfils the relevant regulatory requirements. The fund custodian must ensure the separation of its custodian business from its other businesses, as well as the segregation of its fund assets. The CSRC and CBRC are jointly responsible for examining and approving the qualifications and supervising the activities of fund custodians. According to the Measures for the Administration of Enterprise Annuity Funds (《企業年金基金管理辦法》) promulgated jointly by the Ministry of Human Resources and Social Security, CBRC, CSRC, CIRC and other authorities and amended on April 30, 2015, commercial banks acting as custodians of enterprise annuity funds are required to establish separate trust business and investment business departments, with strict segregation of office areas, operational management processes and business systems. The directly responsible senior management members, employees of trust business and investment business departments are not allowed to hold other positions concurrently in each other's office.

### Insurance Agency Business

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution networks. Commercial banks that conduct agency sales of insurance products are required to comply with applicable rules issued by the CIRC, for example, each outlet of a commercial bank may, in principle, cooperate with no more than three insurance companies in a financial year to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must report to the local branch of CBRC. Pursuant to the Supervisory Guidance on the Insurance Agency Business of Commercial Banks (《商業銀行代理保險業務監管指引》) jointly promulgated by the 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 the CIRC and authorization from the tier-one branch of the commercial bank before operating such business. On April 25, 2016, the CIRC issued the Notice on Matters Relating to the Administrative Licensing of Bancassurance Agencies (《關於銀行類保險兼業代理機構行政許可有關事項的通知》) to change the former requirement of business outlets being license holders to the new requirements that the legal person entity shall apply for insurance agency

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qualification, the legal person entity shall be the license holder and a uniform registration system shall be implemented for business outlets, that means, after a banking institution has obtained the bancassurance agency license, its branches and sub-branches may commence insurance agency business under the authorization of the banking institution.

On January 8, 2014, the CIRC and CBRC jointly promulgated the Notice Concerning Further Regulation of Agency Sales of Insurance Business Conducted by Commercial Banks (《中國保監會、中國銀監會關於進一步規範商業銀行代理保險業務銷售行為的通知》), which requires commercial banks to assess the demands and risk tolerance of the policyholders. The gross written premiums received by a commercial bank from agency sales of accident injury 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 not be less than 20% of the gross written premiums of its insurance agency business. On May 5, 2016, the CBRC issued the Notice on Regulating the Agency Sales Business of Commercial Banks (《關於規範商業銀行代理銷售業務的通知》), which sets out further requirements on the business of agency sales of financial products by commercial banks. According to the Notice, commercial banks engaging in agency sales shall strengthen management on the eligibility of investors, fully disclose the risks of products under agency sales, and sell financial products matching with their risk profile. Commercial banks shall establish a risk segregation system to separate the risks of agency sales business and other businesses in order to strictly separate the accounts, funds, accounting and auditing procedures of the agency sales business from other businesses. Agency sales of commercial banks shall only include financial products issued in accordance with the laws by financial institutions with financial licenses under the supervision and administration by the CBRC, CSRC and CIRC, and shall not include products issued by institutions beyond the scope of agency sales, except for government bonds, physical precious metals and products otherwise specified by the CBRC. Commercial banks shall conduct due diligence studies on the products intending to be sold in agency sales, and shall not solely rely on the review and approval materials of the products provided by the collaborating institution as the basis for review and approval of the products.

### **Wealth Management**

On September 24, 2005, the CBRC promulgated the Interim Measures on Administration of Personal Wealth Management Services of Commercial Banks (《商業銀行個人理財業務管理暫行辦法》) effective on November 1, 2005, which provided that if commercial banks engage in income-protected wealth management plans, new investment products of income-protected nature designed for personal wealth management business and some other personal wealth management activities, they must obtain approval from the CBRC. If they engage in other personal wealth management activities for which approval is not required, they should also report to the CBRC.

In addition to domestic wealth management, the PBoC, CBRC and SAFE jointly promulgated the Interim Administrative Measures for Commercial Banks to Provide Overseas Financial Management Services (《商業銀行開辦代客境外理財業務管理暫行辦法》), effective on April 17, 2006, which permit duly licensed commercial banks engaging in overseas wealth management activities on behalf of customers to accept entrustment from domestic institutions and individuals to invest overseas in pre-approved financial products.

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

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

On July 10, 2014, the CBRC promulgated the Notice on the Improvement of the Organization and Management System of Wealth Management Business of 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 improve the organization and management system of wealth management business. A commercial bank shall conduct division reform of wealth management business under the requirements of separate accounting, risk segregation, code of conduct and centralized management, and establish a specialized operating department for wealth management business, which is responsible for the centralized and unified management of its overall wealth management business. A commercial bank shall also operate its wealth management business in compliance with the relevant prudent requirements under the banking regulations.

### **Bills Business**

Under the PRC Commercial Banking Law, when commercial banks engage in the settlement business, including bills acceptance, foreign exchange conversion and entrusted fund collection, the commercial banks shall honor the payments and credit receipts to accounts according to the specified timeline and shall not accumulate the bills or cheques or dishonor the cheques in violation of the requirements. Announcement on the prescribed timeline for honoring payments and crediting receipts into the account shall be made.

On April 26, 2016, the PBoC and CBRC issued the Circular on Strengthening Supervision and Administration on the Bills Business to Promote Healthy Development of the Bills Market (《關於加強票據業務監管促進票據市場健康發展的通知》) (Yin Fa [2016] No. 126) (“**Circular 126**”). Circular 126 requires commercial banks to (i) strengthen internal control management of the bills business; (ii) persist to examine the background of the relevant transactions; (iii) regulate the conduct of trading of bills; and (iv) conduct self-examination on the risks of the bills business. Meanwhile, the branches of the PBoC and CBRC have also increased their efforts in on-site and off-site examinations on the bills business of commercial banks.

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In July, 2016, the Bank completed self-examination and submitted the self-examination report to the PBoC and CBRC. No improper trading was identified in the self-examination process. The Bank believes that the implementation of Circular 126 will not have any material and adverse effect on the business, financial conditions and operating results of the Bank.

### Interbank Business

On April 24, 2014, the PBoC, CBRC, CSRC, CIRC and SAFE jointly promulgated the Circular on Regulating Interbank Businesses of Financial Institutions (Yin Fa [2014] No.127) (《關於規範金融機構同業業務的通知》(銀發[2014]127號)) (“**Circular 127**”), which sets out certain requirements in connection with regulating interbank business operations, the enhancement and improvement in the internal and external management of interbank businesses, and the promotion of compliant and innovative assets and liabilities businesses. For example, (i) Circular 127 defines and regulates interbank investment and financing businesses, including interbank lending, interbank deposits, interbank borrowing, interbank payments, financial assets held under resale agreements or financial assets sold under repurchase agreements. The Circular also required that interbank businesses (with investment and financing being the core businesses) should be classified into the aforesaid categories in accordance with the substance of their transactions, and different interbank businesses 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 types of 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 interbank 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 based on the nature of the underlying assets invested; (v) financial institutions shall determine the financing term in a reasonable and prudent manner in interbank business. The term of interbank borrowing shall not exceed three years and the term of other interbank financing business shall not exceed one year, and such terms must not be extended beyond their maturity; (vi) the net balance of interbank funds (excluding interbank deposits for settlement purposes) placed by a single commercial bank to another financial institution with legal person status after deducting assets with zero risk-weighting shall not exceed 50% of the bank’s tier-one capital. The balance of interbank funds borrowed by a single commercial bank shall not exceed one third of its total liabilities; and (vii) financial institutions engaging in interbank business should establish a sound and compatible risk management system and internal control system and adopt correct methods of accounting treatments.

On May 8, 2014, the General Office of the CBRC promulgated the Notice on the Regulation of the Management of Interbank Business Conducted by Commercial Banks (Yin Jian Ban Fa [2014] No. 140) (《關於規範商業銀行同業業務治理的通知》(銀監辦發[2014]140號)) (“**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 interbank businesses 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

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counterparty, amount, term, pricing and contract on a case-by-case basis, and shall be responsible for centralized management of financial accounting and assuming full risk control accountability. Commercial banks shall establish a sound management system for the authorization of interbank businesses, improve the credit management policies and the counterparty entry system.

After the implementation of Circular 127 and Circular 140, the Bank's interbank business has complied with the relevant requirements. Implementation of Circular 127 and Circular 140 has no material adverse effect on the Bank's business operation and financial position.

### **Electronic Banking**

In January 2006, to strengthen the risk management and security standards of electronic banking business, the CBRC promulgated 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》). Banking institutions approved by the CBRC may engage in electronic banking business. All banking institutions applying to establish an electronic banking business should have comprehensive risk management and internal control systems. Banking institutions are not permitted to have major accidents relating to their primary information management system and operations processing system in the year immediately prior to the submission of their application. In addition, all banking institutions conducting electronic banking business must adopt security measures to ensure the confidentiality of information and to prevent the unauthorized use of electronic banking accounts.

The CBRC promulgated 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. Commercial banks shall specify a centralized electronic banking management department for the electronic funds transfer and payment business in order to ensure the safe, stable and ongoing operations of the business.

On January 15, 2016, the State Council published the Plan for Promoting Inclusive Finance (2016-2020) (推進普惠金融發展規劃 (2016-2020年)) to guide the financial institutions to actively develop the electronic payment method and gradually construct a business channel systems consisting of electronic payment channels and physical networks which complement each other.

### **Credit Cards**

On January 13, 2011, the CBRC promulgated the Measures for the Supervision and Administration of the Credit Card Business of Commercial Banks (《商業銀行信用卡業務監督管理辦法》), which sets forth conditions that commercial banks must meet to conduct credit card businesses, including obtaining prior approval from the CBRC. Commercial banks are required to establish effective internal control and risk management systems to monitor the operation of their credit card business, as well as to protect the legal rights and personal information of customers. Commercial banks are also required to fully disclose the risks related to the use of credit cards to their customers and establish comprehensive mechanisms to handle relevant complaints.

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### **Proprietary Investments**

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

### **Business of Community Sub-branches and Sub-branches for Small and Micro Enterprises**

On December 5, 2013, the CBRC promulgated the Notice on Establishment of Community Sub-branches and SME Sub-branches by Small and Medium-sized Commercial Banks (《中國銀監會辦公廳關於中小商業銀行設立社區支行、小微支行有關事項的通知》), supporting eligible small and medium commercial banks to set up community sub-branches and sub-branches for small and micro enterprises with their own characteristics on the condition that their risks and costs are manageable. As a special type of sub-branch, the community sub-branches and sub-branches for small and micro enterprises are simply bank outlets that are specially set up to serve community residents and small and micro enterprises. To set up such sub-branches, banks are required to complete relevant administrative examination and approval procedures to obtain the license. The existing certain bank outlets providing inquiry service, which are characterized as “self-service bank plus people”, should be classified as community sub-branches and sub-branches for small and micro enterprises, and applications should be submitted for their establishment pursuant to relevant admission procedures.

### **Financial Innovations**

In December 5, 2006, the CBRC promulgated the Guidelines on Financial Innovations of Commercial Banks (《商業銀行金融創新指引》) (implemented on December 11, 2006), the purpose of which is to encourage PRC commercial banks to prudently engage in financial innovation-related activities, including developing new businesses and products and improving existing businesses and products, expanding their scope of business, enhancing cost efficiency and profitability, and reducing their reliance on lending business for profits. To facilitate financial innovation by PRC commercial banks, the CBRC has indicated that it will streamline and increase the efficiency of the review and approval procedures for new products.

### **Financing to Small and Micro Enterprises**

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

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



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On August 29, 2013, the CBRC issued the Guiding Opinions on Further Improving Financial Services to Small and Micro Enterprises (《關於進一步做好小微企業金融服務工作的指導意見》), which proposes certain requirements on further promoting Chinese banking industry financial service to small and micro enterprises, further improving the monitoring indicator system and assessments of financial service for small and micro enterprises.

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

On October 31, 2014, the State Council issued the Opinions on Supporting the Sound Development of Micro and Small Enterprises (《關於扶持小型微型企業健康發展的意見》), which encourages and guides banks to focus on supporting small and micro enterprises as well as regional economic development, and requests banking institutions to separately list credit plans for small and micro enterprises subject to commercial sustainability and effective risk control

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

### **Internet Finance**

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

### **Certificates of Deposit**

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

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### PRICING OF PRODUCTS AND SERVICES

#### Interest Rates for Loans and Deposits

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

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

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

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

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

Date of adjustment	Demand deposits	Time deposits					
		Three months	Six months	One year	Two years	Three years	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 <sup>(1)</sup>
March 1, 2015 .....	0.35	2.10	2.30	2.50	3.10	3.75	N/A
May 11, 2015 .....	0.35	1.85	2.05	2.25	2.85	3.50	N/A
June 28, 2015 .....	0.35	1.60	1.80	2.00	2.60	3.25	N/A
August 26, 2015 .....	0.35	1.35	1.55	1.75	2.35	3.00	N/A
October 24, 2015 .....	0.35	1.10	1.30	1.50	2.10	2.75	N/A

Source: PBoC

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

Commercial banks currently are permitted to negotiate and determine the interest rates on foreign currency-denominated loans and deposits.

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### Pricing for Fee- and Commission-based Products and Services

The CBRC, PBoC and NDRC jointly promulgated 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 some charging items in relation to RMB personal accounts starting from July 1, 2011.

On January 20, 2012, the CBRC promulgated 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 promulgated by the CBRC and NDRC on February 14, 2014 and effective on August 1, 2014, other than those services the pricing for which are guided or determined by the government, commercial banks' services are priced based on market conditions. In the event that the commercial bank increases the service prices or sets new service prices based on market conditions, the bank is required to make public such prices at least three months prior to the implementation of such prices in accordance with the Administrative Measures on Pricing of Commercial Banking Services.

### REQUIRED DEPOSIT RESERVE

Commercial banks are required to maintain a percentage of their total deposits as reserves with the PBoC to ensure they have sufficient liquidity to meet customer withdrawals. Currently, city commercial banks are generally required to maintain a deposit reserve of not less than 15% of their total outstanding Renminbi deposits according to the relevant requirements of the PBoC. Our deposit reserve being 13.5% is allowed to be 1.5 percentage points lower than the industry-wide requirement, as our loans to small and micro enterprises accounted for 30% of our total loans to customers by the end of the previous year while the increase of loans to small and micro enterprises reached 50% compared to that in the previous year.

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

Date of adjustment	Statutory deposit reserve ratio %
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
June 16, 2014 .....	17.5
February 5, 2015 .....	17.5
April 20, 2015 .....	16.5
September 6, 2015 .....	16.0
October 24, 2015 .....	15.0
March 1, 2016 .....	15.0

Source: PBoC

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### SUPERVISION OVER CAPITAL ADEQUACY

#### Latest CBRC Supervisory Standards Over Capital Adequacy

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

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

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

On February 23, 2004, the CBRC promulgated the Capital Adequacy Measures (《資本充足辦法》) which became effective on March 1, 2004 and was amended on July 3, 2007 and superseded by the Capital Administrative Measures (《資本管理辦法》) issued by the CBRC on January 1, 2013. The Capital Administrative Measures stipulates that for a commercial bank the core tier-one capital adequacy ratio shall not be less than 5%; the tier-one capital adequacy ratio shall not be less than 6%; and the capital adequacy ratio shall not be less than 8%. The Capital Administrative Measures also amended the risk weighting for various assets and adjusted the components of capital. In addition, the Capital Administrative Measures required commercial banks to make adequate allowance for various impairment losses, including those associated with loans, before calculating their capital adequacy ratios. These changes resulted in a more stringent capital adequacy requirement.

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

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

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

In the above formulae:

Capital	Includes both core capital and supplementary capital.
Core capital	Includes paid-in capital or common shares, capital reserve, surplus reserve, retained earnings and minority interests.
Supplementary capital	Includes up to 70% of the reserve for revaluation, general provisions, preference shares, qualifying convertible bonds, qualifying long-term subordinated debt, qualifying hybrid capital bonds and changes in fair value.

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(Any positive change of no more than 50% to the fair value of available-for-sale bonds that have been included as part of the owners' equity interests may be calculated as supplementary capital; and any negative change to the fair value shall be deducted from supplementary capital in full. When a commercial bank calculates its capital adequacy ratio, it shall transfer the fair value of available-for-sale bonds that have been included in the capital reserves from the core capital into the supplementary capital.)

Capital deductions	Include goodwill, capital investments in non-consolidated financial institutions, and equity investments in non-banking financial institutions and enterprises and capital investment in real estate that is not for self-use.
Core capital deductions	Include goodwill, 50% of capital investments in non-consolidated financial institutions, 50% of equity investments in non-banking financial institutions and enterprises and 50% of capital investment in real estate that is not for self-use.
Risk-weighted assets	Refer to the assets calculated by multiplying the value of on- and off-balance-sheet assets by their corresponding risk weightings, after taking into account risk-mitigating factors.
Market risk capital	Refers to the capital that a bank is required to provide for the market risks relating to its assets. Commercial banks with total trading book positions greater than 10% of the bank's total on- and off-balance sheet assets or over RMB8,500 million are required to make provisions for market risk capital.

On June 7, 2012, the CBRC promulgated the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), setting up a new capital adequacy regulatory system by reference to Basel III to replace the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (《商業銀行資本充足率管理辦法》). The Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) have been in effect since January 1, 2013. In particular, the Capital Administrative Measures for Commercial Banks (Provisional) established a unified and comprehensive capital adequacy regulatory system, redefined the meaning of capital, enlarged the scope of risks to be covered by capital, emphasized the scientific classification and differentiated supervision of the capital adequacy levels of commercial banks and provided commercial banks a transitional period for meeting the new capital adequacy requirements.

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

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

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

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

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 Capital	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	Refer to items that should be deducted correspondingly when commercial banks calculate the capital adequacy ratio at each tier.
Risk-weighted assets	Include credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.

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

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

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

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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 for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》).

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



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

*Note:*

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

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

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

### Time Limit for Meeting the Requirements

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

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

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1, 2013. During the transitional period, the capital reservation buffer requirement (2.5%) will be gradually introduced and commercial banks are required to meet the following annual capital adequacy ratio requirement:

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

*Note:* Our Bank is categorized as “Other Banks” as shown in the table above.

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

### Issuance of Capital Instruments to Replenish Capital

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

On September 5, 2006, the PBoC promulgated the Notice of PBoC (2006) No. 11 — Matters Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks (《中國人民銀行公告(2006)第11號—商業銀行發行混合資本債券的有關事宜》), which clarified the definition of hybrid capital bonds and specified the relevant issuance requirements.

On June 7, 2012, the CBRC promulgated 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

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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》) promulgated by the CBRC on November 29, 2012 allows and encourages 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 to write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) the decision to make a public sector injection of capital, or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities.

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

On November 30, 2013, the State Council promulgated the Guidance Opinions on the Pilot Scheme of Preference Shares (《國務院關於開展優先股試點的指導意見》), which sets out the principles regarding the definition of preference shares, the priority of holders of preference shares in receiving profits distribution and remaining assets, the repurchase and conversion of preference shares, the restrictions on voting rights and recovery of voting rights, and the issuance and trading of preference shares. On March 21, 2014, CSRC promulgated the Administrative Measures on the Pilot Scheme of Preference Shares (《優先股試點管理辦法》) which sets out specific requirements in respect of the exercise of the rights of holders of preference shares, the issuance of preference shares by listed companies, the non-public placement of preference shares by non-listed public companies, the trading, transfer, registration and settlement of transactions, the information disclosure, the repurchase, merger and acquisition and reorganization, and the regulatory measures and legal liabilities.

On April 3, 2014, the CBRC and CSRC promulgated the Guiding Opinions on the Issuance of Preference Shares by Commercial Banks for Replenishing Tier-one Capital (《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 for replenishing tier-one capital. The issuance of preference shares by commercial banks shall comply with the relevant requirements of the State Council and CSRC subject to the conditions in relation to raising capital replenishment instruments of the CBRC, and the core tier-one capital adequacy ratio shall not be lower than prudential requirements of the CBRC. Commercial banks shall meet the qualified standards on other tier-one capital instruments as required by the Capital Administrative Measures and the Guiding Opinions of the CBRC on Capital Instrument Innovation of Commercial Banks to issue preference shares for replenishing tier-one capital. Commercial banks shall submit the application for the issuance of preference shares to the CBRC (including its local offices). They shall

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submit the application for the issuance to the CSRC after having obtained approval documents from the CBRC. The CSRC shall approve the application in accordance with the Administrative Measures on the Pilot Scheme of Preference Shares and the relevant supporting rules. If non-listed commercial banks issue preference shares, they shall apply for listing and publicly transferring the shares on the National Equities Exchange and Quotations System in accordance with the relevant requirements of the CSRC, and shall be supervised as non-listed public companies.

### **Issuance of Special Financial Bonds for Small and Micro Enterprise Loans**

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

### **CBRC's Supervision of Capital Adequacy**

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

Under the Capital Administrative Measures, commercial banks are classified into four categories based on their capital adequacy ratios, and the CBRC adopts corresponding actions to these banks, the details of which are set forth below.

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.	<ul style="list-style-type: none"><li>• 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</li><li>• to require the commercial bank to improve its risk control capability.</li></ul>

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Categories	Capital adequacy	CBRC actions
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.	<ul style="list-style-type: none"> <li>• to adopt the regulatory measures for Grade I banks;</li> <li>• to hold talks on prudent practice with the board of directors and the senior management of the commercial bank;</li> <li>• to issue a regulatory opinion, which must include the problems identified with the capital management of the commercial bank, the proposed measures for remediation and the opinion on meeting the requirements within the prescribed time limit;</li> <li>• to require the commercial bank to formulate a practicable capital replenishment plan and the plan for meeting the requirements within the prescribed time limit;</li> <li>• to increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and</li> <li>• to require the commercial bank to take risk-mitigation measures for specific risk areas.</li> </ul>
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.	<ul style="list-style-type: none"> <li>• to adopt the regulatory measures for Grades I and II banks;</li> <li>• to restrict the commercial bank from distributing dividends and other income;</li> <li>• to restrict the commercial bank from granting any form of incentives to directors and senior management;</li> <li>• to restrict the commercial bank from making equity investments or repurchasing capital instruments;</li> <li>• to restrict the commercial bank from incurring major capital expenditure; and</li> <li>• to require the commercial bank to control the growth of risky assets.</li> </ul>

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Categories	Capital adequacy	CBRC actions
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.	<ul style="list-style-type: none"> <li>• to adopt the regulatory measures for Grade I, II and III banks;</li> <li>• to require the commercial bank to significantly downsize risky assets;</li> <li>• to order the commercial bank to suspend all high-risk asset businesses;</li> <li>• to restrict or prohibit the commercial bank from establishing new institutions or launching new businesses;</li> <li>• to require the commercial bank to write down tier-two capital instruments or convert them into ordinary shares;</li> <li>• to order the commercial bank to change its directors or senior management or restrict their rights;</li> <li>• to lawfully take over the commercial bank or procure the institutional reorganization of, or even dissolve, the commercial bank; and</li> <li>• to consider other external factors and take other necessary measures in order to solve the problems faced by Grade IV commercial banks.</li> </ul>

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*Note:*

(1) As of December 31, 2016, our Bank was a Grade I bank as shown in the table above.

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### Introduction of the New Leverage Requirements

In an effort to supplement the effect of risk-based capital adequacy requirements, CBRC amended the Administrative Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》) (the “**Administrative Measures**”) on January 30, 2015, which came into effect on April 1, 2015.

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

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

Pursuant to these measures, in calculating the leverage ratio, with the exception of loan commitment that could be canceled unconditionally at any time being calculated on the basis of the credit conversion factor of 10%, other off-balance sheet items shall be measured in accordance with the credit conversion factors by use of credit risk weighting method in the Capital Administrative Measures. Commercial banks are also required to report to the CBRC their consolidated leverage ratios on a semiannual basis and their unconsolidated leverage ratios on a quarterly basis. For a commercial bank which fails to meet the minimum leverage ratio, the CBRC may take regulatory 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 damaged the legitimate interests of depositors or other clients, the CBRC may take relevant regulatory actions pursuant to the PRC Banking Supervision and Regulatory Law. In addition to the above-mentioned measures, the CBRC may also impose an administrative penalty upon the commercial bank.

The Administrative Measures adjusts quantitative methodologies to calculate the leverage ratio of off-balance-sheet items such as bank acceptances, guarantees, letters of credit and trade finance. In addition, the Administrative Measures implements a more stringent requirements on leverage ratio disclosure. The Administrative Measures no longer applies a 100% credit conversion factor for off-balance-sheet items such as bank acceptances, guarantees, letters of credit and trade finance. Instead, conversion factors of 10%, 20%, 50% and 100% are applied to different items.

The above measures also provide that systematically important banks are required to meet the regulatory requirements on leverage ratio before April 1, 2015 when Administrative Measures becomes effective, while non-systematically important banks are required to meet such requirements before the end of 2016. Although our Bank is a non-systematically important bank, our Bank has met the regulatory requirement to have a leverage ratio of not less than 4%.

### **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



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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.

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

In line with the reform of Basel Accords and the implementation of Basel III, on April 27, 2011, the CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China's Banking Industry (《中國銀監會關於中國銀行業實施新監管標準的指導意見》), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, the CBRC issued 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, the CBRC issued the Capital Administrative Measures (《資本管理辦法》) which came into effect on January 1, 2013 and superseded the Capital Adequacy Measures (《資本充足辦法》) and related guidelines. In an effort to enhance the effectiveness of capital supervision, improve the risk management capability of commercial banks and strengthen the constraint function of the market, on July 19, 2013, the CBRC issued the following four policy documents to complement the Capital Administrative Measures: the Measurement Rules for Risk Exposure Capital of Central Counterparties (《中央交易對手風險暴露資本計量規則》); the Supervisory Requirements Concerning Information Disclosure on the Capital Composition of Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》); the Supplemental Supervisory Requirements Concerning the Implementation of Internal Ratings-based Approach by Commercial Banks (《關於商業銀行實施內部評級法的補充監管要求》); and the Questions and Answers Regarding the Capital Supervisory Policy (《資本監管政策問答》). In September 2015, the CBRC revised the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》). In January 2014, the Basel Committee issued the Leverage Ratio Framework and Disclosure Requirements in the Third Installment of Basel Accords (《第三版巴塞爾協議槓桿率框架和披露要求》), which revised the international rules in relation to leverage ratio. According to the new rules of leverage ratio by the Basel Committee, in 2015, the CBRC revised the Administrative Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》) which was issued on June 1, 2011, and put forward clearer and stricter requirements for the disclosure of leverage ratio of commercial banks.

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### LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

#### Loan Classification

On July 3, 2007, the CBRC issued the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》), requiring banks in China to classify the loans by judging the possibility that the debtors could repay in full the loan principals and interests timely in accordance with the five-category loan classification system. The five-category loan classification refers to “normal,” “special mention,” “substandard,” “doubtful” and “loss”. Loans classified as substandard, doubtful and loss are regarded as non-performing. The primary factors for evaluating the likelihood of repayment include the borrower’s cash flow, financial conditions and credit record.

#### Loan Loss Allowance

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

Under the Guidelines on Bank Loan Loss Allowance (《銀行貸款損失準備計提指引》) promulgated by the PBoC on April 2, 2002, commercial banks are required to make a general loan loss allowance on a quarterly basis and to have a general allowance of not less than 1% of the loan balance at the end of the year. The guidelines provide additional guidance on the proportion of specific allowance for each loan category: 2% for special mention loans; 25% for substandard loans; 50% for doubtful loans and 100% for loss loans. Allowance for losses of substandard and doubtful loans may be set aside within a floating range of 20%. Commercial banks may make special allowance in accordance with special risk factors (including risks in association with certain industries and countries), probability of losses and historical experience.

In accordance with the Administrative Measures for Loan Loss Allowance of Commercial Banks (《商業銀行貸款損失準備管理辦法》), which was promulgated by the CBRC on July 27, 2011 and became effective on January 1, 2012, the adequacy ratio of loan loss allowance of commercial banks is assessed based on its allowance to total loan ratio and its allowance to non-performing loan ratio, the benchmarks of which are 2.5% and 150%, respectively. The higher of the two ratios will be taken to be the supervisory standard. The boards of directors of commercial banks are required to assume ultimate responsibility for the management of loan loss allowance. Systematically important banks are required to reach the standard by the end of 2013, and non-systematically important banks are required to reach such standard by the end of 2016. Those failing to reach the standard by the end of 2016 are required to formulate a plan on how to reach such standard, submit the same to banking regulatory authorities and reach such standard by the end of 2018 at the latest.

#### CBRC’s Supervision of Loan Classification and Loan Loss Allowance

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

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### 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》) promulgated by the 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.

### Loan Write-offs

Under the regulations issued by the 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 the MOF. Losses realized when writing off loans are deductible for tax purposes, but such deduction is subject to the review and approval of the tax authorities.

### Allowance and Statutory General Reserve for Impairment Losses

On March 30, 2012, the MOF issued the Administrative Measures for the Provisioning for Reserves of Financial Enterprises (《金融企業準備金計提管理辦法》), which requires the statutory general reserve to be generally no less than 1.5% of the risk-bearing assets of the financial institutions at the balance sheet date. Financial enterprises 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 enterprise fails to reach 1.5% of the aggregate amount of risk assets at the balance sheet date, the financial enterprise is allowed to achieve the requirement within a certain period of time, in principle not exceeding five years.

### OTHER OPERATIONAL AND RISK MANAGEMENT RATIOS

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

The table below sets forth the required ratios of Core Indicators (Provisional) and the ratios of the Bank on an unconsolidated basis under PRC GAAP as of or for the years ended December 31, 2014, 2015 and 2016. The calculation approach is the same as our Bank submitted to the CBRC / its local office.

Risk level	Primary indicators	Secondary indicators	Requirement	Ratios of our Bank (%)		
				As of and for the year ended December 31,		
				2014	2015	2016
			(%)			
<i>Risk Level</i>						
Liquidity Risk ...	Liquidity ratio <sup>(1)</sup>	RMB	≥25	55.40	32.54	48.13
		Foreign currency		N/A	N/A	111.83
	Core liabilities ratio <sup>(2)</sup>		≥60	63.98	53.32	44.31
	Liquidity gap ratio <sup>(3)</sup>		≥(10)	26.26	3.59	5.87
Credit risk .....	Non-performing asset ratio <sup>(4)</sup>		≤4	1.17	1.01	1.03
		Non-performing loan ratio <sup>(5)</sup>	≤5	1.83	1.87	1.87

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Risk level	Primary indicators	Secondary indicators	Requirement	Ratios of our Bank (%)		
				As of and for the year ended December 31,		
				2014	2015	2016
			(%)			
	Credit exposure to a single group customer <sup>(6)</sup>		≤15	0.69	5.80	3.56
		Loan exposure to a single customer <sup>(7)</sup>	≤10	0.47	5.80	2.22
	Overall credit exposure to related parties <sup>(8)</sup>		≤50	0.00	1.16	3.53
Market risk.....	Cumulative foreign currency exposure ratio <sup>(9)</sup>		≤20	N/A	N/A	0.39
<b>Risk Cushion</b>						
Profitability .....	Cost-to-income ratio <sup>(10)</sup>		≤45	36.39	39.51	42.42
	ROAA <sup>(11)</sup>		≥0.6	1.38	1.19	0.93
	ROAE <sup>(12)</sup>		≥11	12.15	10.22	10.15
Allowance Adequacy .....	Allowance adequacy ratio for asset losses <sup>(13)</sup>		>100	333.10	353.12	293.77
		Allowance adequacy ratio for loan <sup>(14)</sup>	>100	340.74	356.95	347.93
Capital adequacy .....	Capital adequacy ratio <sup>(15)</sup>					
		Capital adequacy ratio	≥10.5	19.78	16.21	12.17
		Tier-one capital adequacy ratio	≥8.5	18.67	15.09	11.17
		Core tier-one capital adequacy ratio	≥7.5	18.67	15.09	11.17

*Notes:*

- (1) Liquidity ratio = Current assets/Current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions due within one month, interest receivable and other receivables due within one month, qualified loans due within one month, bond investments due within one month, debt securities that can be liquidated on the domestic or international secondary market at any time and other liquid assets due within one month (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), time deposits due within one month (excluding fiscal deposits), net placements and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interest payable and all kinds of payables due within one month, borrowings from PBoC due within one month and other liabilities due within one month.
- (2) Core liabilities ratio = Amount of core liabilities/amount of total liabilities x 100%. Core liabilities refer to the total of time deposit with remaining maturities of three months or longer, issued debt securities and 50% of demand deposits in the past 12 months. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP.
- (3) Liquidity gap ratio = Liquidity gap/Amount of on- or off-balance sheet assets with maturities of 90 days or less x 100%. Liquidity gap refers to the amount of on- or off-balance sheet assets with maturities of 90 days or less minus the amount of on- or off-balance sheet liabilities with maturities of 90 days or less.
- (4) Non-performing asset ratio = Amount of non-performing assets subject to credit risk/Amount of assets subject to credit risk x 100%. Non-performing credit risk assets include non-performing loans and other credit risk assets categorized as non-performing. The categorization of non-loan credit risk assets is in accordance with relevant CBRC regulations.
- (5) Non-performing loan ratio = Amount of non-performing loans/Amount of total loans x 100%. Non-performing loans refer to loans in the substandard, doubtful and loss categories according to PBoC and CBRC's five category loan classification system.

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- (6) Credit exposure to a single group customer = Total credit granted to the largest group customer/Net capital x 100%. Largest group customer refers to the single group customer granted the highest credit limit at the end of the period.
- (7) Loan exposure to a single customer = Total loans to the largest customer/Net capital x 100%. Largest customer refers to the customer with the highest amount of loans outstanding at the end of the period.
- (8) Overall credit exposure to related parties = Total granted credit limit to all related parties/Net capital x 100%. Related parties refer to parties defined in the Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》). Total granted credit limit to all related parties refers to total credit limit granted to such parties minus cash deposit guarantees and collateral in the form of bank deposits and Chinese government bonds.
- (9) Cumulative foreign currency exposure ratio = Amount of cumulative foreign currency exposure/Net capital x 100%. Cumulative foreign currency exposure refers to exchange rate sensitive foreign currency assets subtracted by exchange rate sensitive foreign currency liabilities.
- (10) Cost-to-income ratio = Operating expenses/Operating income x 100%.
- (11) Return on average assets = Net profit/average balance of assets x 100%.
- (12) Return on average equity = Net profit/average balance of shareholders' equity for the period x 100%.
- (13) Allowance adequacy ratio for asset losses = Actual amount of allowance for assets subject to credit risk/Required amount of allowance for assets subject to credit risk x 100%.
- (14) Allowance adequacy ratio for loan losses = Actual amount of allowance for loans/Required amount of allowance for loans x 100%.
- (15) Capital adequacy ratio = (Capital - capital deductions)/(Risk-weighted assets + 12.5 x capital charge for market risk). Core capital adequacy ratio = (Core capital - core capital deductions)/(Risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we have also calculated and disclosed the capital adequacy ratios according to the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). Under the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), capital adequacy ratio = (Total capital - corresponding capital deductions)/risk-weighted assets; tier-one capital adequacy ratio = (tier-one capital - corresponding capital deductions)/risk-weighted assets; core tier-one capital adequacy ratio = (core tier-one capital - corresponding capital deductions)/risk-weighted assets. According to the Capital administrative Measures, as of December 31, 2016, the Bank's capital adequacy ratio, tier-one capital adequacy ratio, and core tier-one capital adequacy ratio were 12.17%, 11.17%, and 11.17%, respectively.

As at the end of 2014, 2015 and 2016, the core liabilities ratio of the Bank was 63.98%, 53.32% and 44.31%, respectively, which didn't meet the core liabilities ratio requirement under the Core Indicators (Provisional). It was primarily attributable to the increase in our funds from interbank market, which are considered non-core liabilities, as a percentages of our total liabilities, which has increased due to our continuously diversified funding sources and financing channels. Therefore, such non-compliance does not shed light on any material liquidity issues. As advised by King & Wood Mallesons, our PRC legal advisor, the Core Indicators (Provisional) provides no penalties in respect of any incompliance with the core liabilities ratio therein. As stated under the Core Indicators (Provisional), unless otherwise stipulated by laws, administrative regulations and department rules, the Core Indicators (Provisional) shall not be taken as the direct basis of any administrative penalties. Moreover, failing to meet the core liabilities ratio may not necessarily lead to any direct significant liquidity risks. Pursuant to 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)》) promulgated by the CBRC on January 17, 2014 and implemented on March 1, 2014, the core liabilities ratio no longer acted as one of regulator indicators.

To improve our core liabilities ratio and manage liquidity risks, we have been actively attracting time deposits from customers, particularly, time deposits with remaining maturities over three months through improved marketing efforts and service quality to customers. In addition, the Bank also closely monitors and timely manages the interbank liabilities so that it could properly manage the size of its total liabilities to ensure the compliance with the required core liabilities ratio.

The return on average equity of 12.15% in 2014 complied with the requirement under the Core Indicators (Provisional). In 2015 and 2016, the return on average equity of the Bank was 10.22% and 10.15%, respectively, which didn't meet the requirement under the Core Indicators (Provisional). It was mainly due to the two increases in share capital made by the Group in 2014 and 2015, which in aggregate increased the net assets by RMB8.4 billion and made the capital increased by 45% as

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compared with that in 2014, diluting the return on average equity in a short time. As advised by King & Wood Mallesons, our PRC legal advisor, the Core Indicators (Provisional) provides no penalties in respect of any incompliance with the return on average equity therein. As stated under the Core Indicators (Provisional), unless otherwise stipulated by laws, administrative regulations and department rules, the Core Indicators (Provisional) shall not be taken as the direct basis of any administrative penalties.

The Bank will disclose any incompliance with regulatory regulations in interim reports and annual reports upon listing.

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

### DEPOSIT INSURANCE REGIME

On February 17, 2015, State Council promulgated the Deposit Insurance Regulation (《存款保險條例》), effective from May 1, 2015. Under this regulation, all deposit-taking financial institutions in China, excluding branches of foreign banks, are subject to the newly established deposit insurance regime. Upon the failure of a deposit-taking financial institution, each depositor of the failed financial institution is entitled to protection of up to RMB500,000 on deposits with the failed financial institution. Within this limit, depositors are fully protected (including principal of and accrued interest on the deposits denominated in Renminbi or foreign currencies).

Deposit-taking financial institutions are required to pay insurance premiums consisting of a flat premium and risk-based premium. The premium structure is decided by the deposit insurance institution and approved by the State Council. The premiums are paid every six months. The funds from the deposit insurance premium payments will be kept with the PBoC, or invested in PRC government bonds, PBoC bills and high-grade bonds.

### CORPORATE GOVERNANCE AND INTERNAL CONTROLS

#### Corporate Governance

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

As for the composition of the board of directors, according to Guidelines on the Duties of the Board of Directors of Joint Stock Commercial Banks (Provisional) (《股份制商業銀行董事會盡職指引(試行)》) issued by the CBRC, a commercial bank with a registered capital exceeding RMB1 billion is required to have at least three independent directors. As for the composition of the supervisory board, according to the Guidelines on the Functioning of Supervisory Board of Commercial Banks (《商業銀行監事會工作指引》) issued by the CBRC, the proportion of employees representative supervisors or that of external supervisors cannot be less than one-third of the supervisory board. In addition, the Guidelines on Independent Directors and External Supervisors of Joint Stock

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Commercial Banks (《股份制商業銀行獨立董事和外部監事制度指引》) requires 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

The CBRC promulgated and amended the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) on July 3, 2007 and September 12, 2014, respectively. Commercial banks are required to establish internal controls to ensure effective risk management for their business activities. PRC commercial banks are also required to appoint a dedicated department to be the internal control management functional department which shall take the lead in making overall planning and organizing the implementation, inspection and appraisal of internal control system. In addition, an internal audit department should also be established to exercise supervision over internal control, audit the sufficiency and effectiveness of the internal control, report the problems discovered in the auditing to the board of directors and supervise the remediation.

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

In accordance with the Guidelines on the Corporate Governance of Commercial Banks promulgated by the CBRC on July 19, 2013, commercial banks are required to establish an accountability system for a sound internal control environment. Under this system, the board of directors and senior management are required to maintain their respective accountability for the effectiveness of internal control and are required to be liable for material losses caused by a breakdown in internal control. In addition, the supervisory board is required to perform its internal control and supervisory obligations by supervising directors and senior management, and refining the system and rules of internal control. Commercial banks are required to establish an independent department for effectively supervising and evaluating internal control, which reports directly to the board of directors, supervisory board and senior management on the progress of developing the internal control system and its enforcement.

On April 16, 2016, the CBRC issued the Guidelines for the Internal Audit of Commercial Bank (《商業銀行內部審計指引》). Commercial banks are required to establish an audit committee of the board with at least three members, a majority of whom must be independent directors. Commercial banks are also required to establish an internal audit department consisting of sufficient internal auditors, who shall in principle represent 1% or more of the bank's total number of employees. The guidelines set forth the responsibility range of the internal audit department and the process of the internal audit work.

### Information Disclosure Requirements

Pursuant to the Measures for the Information Disclosure of Commercial Banks (《商業銀行信息披露辦法》) and the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) promulgated and implemented by the CBRC on July 3, 2007 and July 19, 2013, respectively, a PRC commercial bank is required to publish an annual report (including an audited financial report) within four months of the end of each financial year disclosing its financial position and operational

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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 required by the regulations. The commercial banks shall disclose information via annual reports, website or other methods to facilitate timely access to the disclosed information by the shareholders and other stakeholders. The listed commercial banks shall also disclose information in compliance with the relevant provisions promulgated by the securities regulatory authority.

### **Transactions with Related Parties**

The Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBRC in April 2004, which provided stringent and detailed requirements on the related party transactions of PRC commercial banks, require PRC commercial banks to adhere to the principles of good faith 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 in related party transactions.

Pursuant to these measures, commercial banks must submit to the CBRC, on a quarterly basis, status reports regarding their related party transactions, and must disclose information relating to related parties and related party transactions in the notes to their financial statements. Furthermore, the board of directors of commercial banks is required to report specifically on the implementation of the management of related party transactions and such related party transactions annually to the shareholders' general meeting. The CBRC has the power to take actions against the bank and/or the related parties, including ordering remediation 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, the CBRC has published, in addition to guidelines concerning granting loan and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, numerous risk management guidelines and rules in an effort to improve the risk management of PRC commercial banks, including operational risk management, market risk management, compliance risk management, liquidity risk management, 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, please see “— Regulation on Principal Commercial Banking Activities — Lending” and “— Supervision Over Capital Adequacy — Introduction of the New Leverage Requirements — Basel Accords”. The CBRC also issued the Core Indicators (Provisional) as a basis of supervising the risk management of PRC commercial banks. The CBRC established requirements for certain ratios relating to risk levels and risk provisions in the Core Indicators (Provisional) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. Please see “— Other Operational and Risk Management Ratios”. The CBRC periodically collects data through off-site surveillance to analyse such indicators and evaluate and issue early warnings of the risks on a timely basis.



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### Operational Risk Management

On March 22, 2005, the CBRC promulgated the Circular on Strengthening Control of Operational Risk (《關於加大防範操作風險工作力度的通知》) to further strengthen PRC commercial banks' ability to identify, manage and control operational risks. Under this Circular, commercial banks are required to establish internal policies and procedures specifically for the management and control of operational risks. A bank's internal audit department and business operations department are required to conduct independent and *ad hoc* reviews and examinations of the bank's business operations from time to time, as well as ongoing reviews and examinations for business areas involving a greater degree of operational risks. Moreover, a commercial bank's headquarter is required to assess the implementation of, and compliance with, its internal policies and procedures on 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 of their customers by PRC commercial banks; improving the timely checking of the banks' internal accounting; segregating persons responsible for bookkeeping from those responsible for account reconciliation; and establishing a system to strictly control and manage the use and keeping of chops, specimen signatures and evidential vouchers.

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

On June 2, 2015, the CBRC issued the Notice of the General Office of the China Banking Regulatory Commission on Strengthening Internal Control Management of Banking Financial Institutions and Effectively Preventing Operational Risks of Counter Business (《中國銀監會辦公廳關於加強銀行業金融機構內控管理有效防範櫃面業務操作風險的通知》) in order to promote standardized operation of banking institutions, effectively prevent cases arising from external frauds and internal corruptions and risk events, practically strengthen the risk control for operational risks of counter business, and protect the legal rights for banking consumers more effectively. This notice has set out the detailed requirements in regards to the following aspects: strengthening the construction of the internal control system, the establishment of the three lines of defense, the process control of the counter business, account opening management, account reconciliation management, account surveillance, chops and certificates management, agency business management, risk alerts, maintaining the security of client information, voice recording and video surveillance, business location management, staff behavior management, handling risk events, linked investigations for risk events and double rectification, dual accountability for risk events, internal reporting and inspections, reviews and checking, etc.

### Market Risk Management

On December 29, 2004, the CBRC promulgated the Guidelines on the Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》), which became effective on March 1, 2005, to strengthen the market risk management of PRC commercial banks. These guidelines mainly address,

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among other things, (i) the responsibilities of the board of directors and the senior management in supervising market risk management; (ii) the policies and procedures for market risk management; (iii) the detection, quantification, monitoring and control of market risk; (iv) the responsibilities for internal control and conducting external audits; and (v) appropriate capital allocation mechanism for market risks. Under these guidelines, commercial banks are required to have official policies and procedures in writing in respect of the management of market risks.

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

### **Compliance Risk Management**

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

### **Liquidity Risk Management**

The Administrative Measures on the Liquidity Risk of Commercial Banks (Provisional) (CBRC Order [2014] No.2) (《商業銀行流動性風險管理辦法(試行)》)(中國銀監會令2014年第2號)) promulgated by the CBRC on January 17, 2014, which became effective on March 1, 2014, mainly introduced: (i) the liquidity risk management responsibilities of a commercial bank's board of directors, senior management, board of supervisors and the specialized internal department in charge of liquidity risk management; (ii) the strategy, policy and procedure of liquidity risk management; (iii) the identification, measurement, supervision and control of liquidity risk; and (iv) the calculation methods of liquidity coverage ratio, loan-to-deposit ratio and liquidity ratio, and it is also stated that the PRC commercial banks' liquidity coverage ratios must reach 100% by the end of 2018. According to the Administrative Measures on the Liquidity Risk of Commercial Banks (Provisional), the CBRC should apply regulatory requirement indicators and monitoring reference indicators in its supervision and management of the liquidity risk level and liquidity risk management of commercial banks. In particular, liquidity coverage ratio is a regulatory requirement indicator for liquidity risk and liquidity gap ratio, core liability ratio, loan-to-deposit ratio and liquidity ratio are monitoring reference indicators for liquidity risk.

On June 30, 2014, the CBRC released the Notice on Adjusting the Calculation of Loan-to-Deposit Ratio for Commercial Banks (《中國銀監會關於調整商業銀行存貸比計算口徑的通知》) to adjust the rules for calculating the loan-to-deposit ratio beginning from July 1, 2014.

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

In September 2, 2015, the CBRC revised the Administrative Measures on the Liquidity Risk of Commercial Banks (Provisional), according to the amendments of which 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. The revised measures became effective on October 1, 2015.

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### Information Technology Risk Management

On March 3, 2009, the CBRC promulgated the Guidelines on Information Technology Risk Management of Commercial Banks (《商業銀行信息科技風險管理指引》), which explicitly stipulates the requirements in relation to, among other things, information technology governance structure, information technology risk management, information security, information system development, testing and maintenance, information technology operation, business continuity management, outsourcing management and internal and external audit. Meanwhile, the Guidelines pointed out that, information technology risk management aims to recognize, measure, monitor and control the information technology risk of the commercial banks through establishing an effective mechanism, facilitate safe, sustained and stable operation of commercial banks, promote business innovation, improve the utilization level of information technology, and enhance core competitiveness and sustainable development capacities.

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

On September 3, 2014, the CBRC promulgated the Guiding Opinions on the Use of Secure and Controllable Technology by Banks 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》), which requires banking financial institutions to (i) improve information technology governance mechanism; (ii) maximize 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, the CBRC has promulgated guidelines in relation to several other risks, including the Guidelines on Reputational Risk Management of Commercial Banks (《商業銀行聲譽風險管理指引》), the Guidelines on Bank Account Interest Risk Management of Commercial Banks (《商業銀行銀行賬戶利率風險管理指引》), the Guidelines on Information Technology Risk Management of Commercial Banks (《商業銀行信息科技風險管理指引》) and the Guidelines on Country Risk Management of Banking Financial Institutions (《銀行業金融機構國別風險管理指引》), all in an effort to strengthen commercial banks' risk management capacity in relevant fields.

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

### Supervisory Rating System

On December 30, 2005, the CBRC promulgated 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 the CBRC based on a provisional supervisory rating system. Under these guidelines, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market

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risk, etc., of commercial banks are evaluated and scored by the CBRC on a continuous basis. Each bank is classified into one of six supervisory rating categories based on the scores. The results of ratings will serve as the basis for the regulatory authorities to implement their classified supervision and supervisory measures. Such supervisory rating system has not been disclosed to the public.

### OWNERSHIP AND SHAREHOLDER RESTRICTIONS

#### Regulations on Equity Investment in Banks

On June 5, 2015, the CBRC promulgated 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 the CBRC. If a city commercial bank changes shareholders that hold more than 1% but less than 5% of its total amount of capital or shares, it shall report to the local offices of the CBRC within 10 days after the share is transferred.

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

#### Restrictions on Shareholders

The Guidelines on Corporate Governance of Commercial Banks impose additional requirements on shareholders of commercial banks. For example, shareholders, especially substantial shareholders, are required to support the reasonable 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. If the requirements are not met within the timeframe, dividends are required to be decreased or even suspended from distribution, and capital is required to be replenished by means of increasing core capital. Under such circumstances, substantial shareholders cannot obstruct capital injection 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 the CBRC rules and regulations impose certain restrictions on the ability of a commercial bank's shareholders to pledge their shares. For example, a commercial bank may not accept its own shares as collateral. According to the Guidelines on Corporate Governance of Commercial Banks: (i) any shareholder of a commercial bank must give prior notice to the board of directors of the bank if it wishes to pledge its shares as collateral; and (ii) where the balance of loans extended by a commercial bank to a shareholder exceeds the audited net value of his or her equity for the preceding year, the shareholder cannot use his or her stake in the bank as pledge. In November 2013, the CBRC promulgated the CBRC Notice on Enhanced Management of

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Pledge of Equity Interest in Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》) (the “Notice”), pursuant to which commercial banks are required to clearly stipulate the following matters in their articles of associations in addition to those as stipulated in the foresaid Guidelines on Corporate Governance of Commercial Banks: (i) where a shareholder, who has representation on the board of directors or the board of supervisors, or directly, indirectly or jointly holds or controls more than 2% of share capital or voting rights in the bank pledges his equity interests in the bank, it shall make a filing to the board of directors of the bank prior to the pledge. The filing shall state the basic information of the pledge, including the reasons for the pledge, the number of shares involved, the term of pledge and the particulars of the pledgees. Where the board of directors considers the pledge to be materially adverse to the stability of the bank’s shareholding structure, the corporate governance as well as the control of risk and connected transactions, the filing shall not be accepted. The director(s) nominated by a shareholder proposing to pledge his shares in the bank shall abstain from voting at the meeting of the board of directors at which such proposal is considered; (ii) upon the registration of pledge of equity interests, the shareholder involved shall provide the bank with the relevant information in relation to the pledge of equity interests in a timely manner, so as to facilitate the Bank’s risk management and information disclosure compliance; and (iii) where a shareholder pledges 50% or more of his equity interests in the bank, the voting rights of such shareholder at the shareholders’ general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions.

The Notice provides that when a commercial bank fails to meet the regulatory requirements, PRC regulatory authorities may require the bank to formulate rectification plans and may take corresponding regulatory actions if necessary, however, the Notice does not explicitly provide the details of such regulatory actions.

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

### **Anti-money Laundering Regulation**

The PRC Anti-Money Laundering Law (《中華人民共和國反洗錢法》), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including formulating 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, the PBoC issued the Anti-Money Laundering Regulations for Financial Institutions (《金融機構反洗錢規定》) which required PRC commercial banks to establish specific bodies for anti-money laundering or designate internal bodies to be responsible for anti-money laundering work. On the same day, the 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》) (implemented on March 1, 2007) pursuant to which upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the transactions to the PBoC or the SAFE (if applicable). Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBoC supervises and conducts on-site examinations of commercial banks’ compliance with its anti-money laundering regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-Money Laundering Law and Anti-Money Laundering Regulations for Financial Institutions.

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On June 21, 2007, the PBoC, the CBRC, the CSRC and the CIRC jointly issued the Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) pursuant to which commercial banks are required to establish a system to record identities of all customers and their respective deposits, settlement and status of other transaction information in relevant banks.

On November 11, 2014, the PBoC promulgated the Measures for the Supervision and Administration of the Anti-money Laundering Operations by Financial Institutions (Provisional) (《金融機構反洗錢監督管理辦法(試行)》) which became effective on December 9, 2014. Pursuant to the measures, PBoC is required to establish a regular anti-money laundering information reporting system for financial institutions, and financial institutions are required to report anti-money laundering work related information to PBoC and actively cooperate with PBoC and its branches in supervisory inspections.

### THE U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT (“FATCA”)

As described above in “Risk Factors — Withholding tax may be imposed on payments on the H Shares”, U.S. law known as FATCA targets non-compliance by U.S. taxpayers using foreign accounts. FATCA seeks to obtain information on accounts held by U.S. taxpayers in other countries by requiring FFIs to report to the U.S. Internal Revenue Service (“IRS”) information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a minimum ownership interest.

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

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

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

The Bank and its subsidiaries in the PRC intend to comply with any applicable requirements of FATCA. Although the U.S. and the PRC have in substance agreed to a Model 1 IGA, the PRC government has not promulgated any legislation to interpret or implement FATCA. In a recent announcement, Announcement 2016-27, the IRS has stated that beginning on January 1, 2017, the United States Treasury will begin to update the list of jurisdictions treated as if they have an IGA in effect to provide that certain jurisdictions that have not brought their IGA into force will no longer be treated as if they have an IGA in effect. We will continue to monitor the regulatory changes and adopt measures in accordance with the interpretation and implementation of FATCA by the PRC government once they are promulgated, including providing training and guidance to employees with respect to FATCA knowledge.

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### OTHER REQUIREMENTS

#### Use of Funds

Under the PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities business, or invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities or otherwise specified in 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 approval by the CBRC and other relevant authorities, commercial banks may invest their funds in domestic insurance companies, fund management companies and financial lease companies in accordance with relevant regulation.

#### Periodic Reporting System

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

Pursuant to the Guidelines on the Management and Regulation of Consolidated Financial Statements of Commercial Banks (《商業銀行并表管理與監管指引》) promulgated by the CBRC, the scope of account consolidation of commercial banks shall be determined in accordance with the prevailing PRC accounting standards for enterprises, while the scope of capital regulations shall be determined in accordance with capital regulations and other relevant regulatory requirements.

Pursuant to the Capital Administrative Measures (《資本管理辦法》), when calculating the consolidated capital adequacy ratio, a commercial bank shall consolidate the following domestic and overseas financial institution investees: (i) a financial institution investee in which the commercial bank directly or indirectly holds more than 50% of voting rights; (ii) a financial institution investee in which the commercial bank holds 50% or less of voting rights but which falls within any of the following circumstances: the commercial bank holds more than 50% of voting rights in such financial institution in accordance with an agreement with other investors; the commercial bank has the power, as vested by the articles of association or any agreement, to decide the financial and operating policies of such financial institution; the commercial bank has the power to appoint or remove any members

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of the board of directors or a similar power body of such financial institution; or the commercial bank holds a majority of voting rights within the board of directors or any other similar power body of such financial institution investee; and (iii) a financial institution investee which is actually controlled by the commercial bank as proved by other evidences. “Control” means that a company is able to decide the financial and operating policies of another company and gain profits from the business operations of the latter.

### **REGULATORY AND SHAREHOLDERS’ APPROVALS**

We have obtained our shareholders’ approval for the proposed listing. Please see “Appendix VII — Statutory and General Information — 1. Further Information about Our Bank — D. Resolution of Our Shareholders” to this prospectus.

We have also obtained approval from CBRC Henan Office and CSRC for the Global Offering and the application to list the H Shares on the Hong Kong Stock Exchange on March 23, 2017 and June 13, 2017, respectively.



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## OUR HISTORY AND DEVELOPMENT

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### OUR HISTORY

#### Overview

Our Bank is a city commercial bank headquartered in Zhengzhou, Henan Province, the PRC and was established as a joint stock commercial bank under the name of “中原銀行股份有限公司” pursuant to the relevant PRC laws and regulations on December 23, 2014. The predecessors of the Bank were the Thirteen City Commercial Banks, each being located in Henan Province, the PRC. The Bank was formed through the consolidation of the Thirteen City Commercial Banks, which were promoted and authorized by Henan Government and the CBRC, and supported by the PBoC pursuant to the Guidance Opinions of the State Council on Supporting Henan Province to Expedite the Development of Central Plains Economic Zone (Guofa [2011] 32) (《國務院關於支持河南省加快建設中原經濟區的指導意見》國發[2011]32號) in order to, among others, create a city commercial bank in Henan Province with higher capital base, stronger capability to withstand potential risks, better brand awareness and quality of services, and to better serve the development of the Central Plains Economic Zone (中原經濟區). At the time of the establishment, the registered capital of the Bank was RMB15,420,540,741, divided into 15,420,540,741 Domestic Shares with a nominal value of RMB1.00 each.

Our principal businesses include corporate banking, retail banking, and financial markets business. We offer corporate customers a broad array of products and services to support their business needs, including corporate loans, bill discounting, corporate deposits, transaction banking services, investment banking services and other fee- and commission-based products. We provide our retail customers with a wide range of products and services, including personal loans, personal deposits, bank cards, and various fee- and commission-based products and services. Our financial markets business primarily includes money market transactions, investment business, wealth management, debt securities underwriting and distribution, and bill discounting and rediscounting.

#### Milestones

Key milestones in our history up to the present are as following:

December 2014	The Bank was officially established in Zhengzhou, Henan Province, the PRC.
March 2015	The Bank entered into its first strategic cooperation agreement with the Government of Puyang, Henan Province (河南省濮陽市政府).
December 2015	The Bank increased its registered capital by issuance of 1,204,459,259 Domestic Shares and its paid-up capital amounted to RMB16,625,000,000.
July 2016	The Bank ranked the 210 <sup>th</sup> among the “Top 1000 World Banks” in terms of tier-one capital as of December 31, 2015 by <i>The Banker</i> in 2016, being the 31 <sup>st</sup> among all PRC commercial banks, and the 9 <sup>th</sup> among all PRC city commercial Banks on this list.
August 2016	The Bank’s first batch of rural payment service points across Henan Province commenced their businesses.

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## OUR HISTORY AND DEVELOPMENT

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October 2016	The Bank launched its innovative online loan product secured by real properties — “Yong Xu Dai (永續貸)”, which was granted “The Outstanding Contribution Award for Product Innovation in Financial Industry in 2016 (2016年度金融行業產品創新突出貢獻獎)” by <i>Financial Computerizing</i> .
November 2016	The Bank’s Luoyang Branch officially opened, which marked our realization of a full coverage in all 18 provincial cities across Henan Province.
February 2017	The Bank entered into an agreement with Grameen Inclusive Finance & Targeted Poverty Alleviation International Cooperation Program (格萊珞普惠金融與精準扶貧國際合作項目).

### REORGANIZATION

On December 10, 2013, Henan Government issued the Notice of the Overall Plan for the Reform and Reorganization of Certain City Commercial Banks in Henan Province (Yuzhengban [2013] 100) (《河南省人民政府辦公廳關於印發河南省部分城市商業銀行改革重組工作總體方案的通知》(豫政辦 [2013]100號)) (“**Yuzhengban Circular No. [2013] 100**”), which set out a work plan for the consolidation of the Thirteen City Commercial Banks, including, among others, the structure and process of the reform and restructuring of these banks and the governing bodies during the process of the Reorganization.

Details of the Thirteen City Commercial Banks prior to completion of the Reorganization are set out in the following table:

Thirteen City Commercial Banks	Date of establishment	Location	Registered capital (RMB)	Shareholders <sup>(1)</sup>	Principal business
Anyang Bank	July 19, 2002	Anyang, Henan Province, the PRC	556,209,485	34 non-individual shareholders and 485 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic 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 inter-bank lending; engaging in bank card business; 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.

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Thirteen City Commercial Banks	Date of establishment	Location	Registered capital (RMB)	Shareholders <sup>(1)</sup>	Principal business
Hebi Bank	November 7, 2006	Hebi, Henan Province, the PRC	322,437,368	17 non-individual shareholders and 246 individual shareholders <sup>(2)</sup>	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic 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 inter-bank lending; engaging in bank card business; 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.
Kaifeng Commercial Bank	August 25, 1998	Kaifeng, Henan Province, the PRC	726,000,000	170 non-individual shareholders and 1,115 individual shareholders <sup>(3)</sup>	RMB business; deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; discounting instruments; issuing financial bonds; acting as the issuing agent, payment agent and underwriter of government bonds; trading government bonds; engaging in inter-bank lending; providing guarantee; collecting and making payment as agents and acting as insurance agents; providing safe deposit box service; engaging in the deposit and loan business of the entrusted funds from the local financial credit turnover; and other businesses approved by the banking regulatory authorities under the State Council.
Luohe Bank	September 20, 2002	Luohe, Henan Province, the PRC	705,203,800	16 non-individual shareholders and 252 individual shareholders <sup>(4)</sup>	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic 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 inter-bank lending; engaging in bank card business; 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.

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Thirteen City Commercial Banks	Date of establishment	Location	Registered capital (RMB)	Shareholders <sup>(1)</sup>	Principal business
Nanyang Bank	December 30, 1998	Nanyang, Henan Province, the PRC	396,562,524	40 non-individual shareholders and 3,748 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; discounting instruments; issuing financial bonds; trading government bonds; engaging in inter-bank lending; providing guarantee; collecting and making payment as agents and acting as insurance agents; providing safe deposit box service; engaging in the deposit business of the entrusted funds from the local financial credit turnover; and other businesses approved by the banking regulatory authorities under the State Council.
Puyang Bank	December 31, 2006	Puyang, Henan Province, the PRC	620,836,000	38 non-individual shareholders and 540 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; issuing financial bonds; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds and financial bonds; engaging in inter-bank lending; engaging in bank card business; collecting and making payment as agents and acting as the insurance agent; providing letters of credit and guarantee services; providing safe deposit box service; and other businesses approved by the banking regulatory authorities in China and the PBoC; house leasing. (Those subject to approval according to laws and regulations shall not be operated without approval.)
Sanmenxia Bank	April 10, 2002	Sanmenxia, Henan Province, the PRC	1,030,493,842	25 non-individual shareholders and 291 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; issuing financial bonds; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds and financial bonds; engaging in inter-bank lending; engaging in bank card business; collecting and making payment as agents and acting as the insurance agent; providing safe deposit box service; and other businesses approved by the banking regulatory authorities in China. (Permission for the agency to operate businesses approved by the banking regulatory commission in China according to relevant laws, administrative regulations and other rules. The scope of business is subject to those listed in the approval documents.)

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Thirteen City Commercial Banks	Date of establishment	Location	Registered capital (RMB)	Shareholders <sup>(1)</sup>	Principal business
Shangqiu Bank	September 30, 2006	Shangqiu, Henan Province, the PRC	852,984,232	27 non-individual shareholders and 555 individual shareholders <sup>(5)</sup>	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; issuing financial bonds; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds and financial bonds; engaging in inter-bank lending; engaging in debit card business; collecting and making payment as agents and acting as the insurance agent; providing safe deposit box service; and other businesses approved by the banking regulatory authorities.
Xinyang Bank	December 10, 2002	Xinyang, Henan Province, the PRC	625,974,208	19 non-individual shareholders and 477 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; discounting instruments; issuing financial bonds; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds; engaging in inter-bank lending; collecting and making payment as agents and acting as the insurance agent; providing safe deposit box service; engaging in the deposit and loan business of the entrusted funds from the local financial credit turnover; and other businesses approved by the PBoC.
Xinxiang Bank	August 19, 1997	Xinxiang, Henan Province, the PRC	1,007,989,487	138 non-individual shareholders and 1,115 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; discounting instruments; issuing financial bonds; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds; engaging in inter-bank lending; providing guarantees; collecting and making payment as agents and acting as the insurance agent; providing safe deposit box service; engaging in the deposit and loan business of the entrusted funds from the local financial credit turnover; and other businesses approved by the PBoC.

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Thirteen City Commercial Banks	Date of establishment	Location	Registered capital (RMB)	Shareholders <sup>(1)</sup>	Principal business
Xuchang Bank	October 16, 2005	Xuchang, Henan Province, the PRC	1,002,280,000	11 non-individual shareholders and 436 individual shareholders	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; discounting instruments; issuing financial bonds; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds; engaging in inter-bank lending; collecting and making payment as agents and acting as the insurance agent; providing safe deposit box service; accepting instruments; providing guarantees; dealing in financial bonds; and other businesses approved by the banking regulatory committee in China.
Zhoukou Bank	September 3, 2009	Zhoukou, Henan Province, the PRC	658,797,811	41 non-individual shareholders and 477 individual shareholders <sup>(6)</sup>	Permission for the agency to operate businesses approved by the CBRC according to relevant laws, administrative regulations and other rules, and the scope of business is subject to those listed in the approval documents.
Zhumadian Bank	May 22, 2002	Zhumadian, Henan Province, the PRC	788,793,289	33 non-individual shareholders and 415 individual shareholders	Permission for the agency to operate businesses approved by the CBRC according to relevant laws, administrative regulations and other rules, and the scope of business is subject to those listed in the approval documents.

*Notes:*

- (1) The numbers of shareholders were based on the data provided by the Thirteen City Commercial Banks and had not been verified.
- (2) 24,209,261 shares beneficially owned by 246 individual shareholders in aggregate, representing approximately 7.51% of the issued share capital of Hebi Bank, were held by YU Jianguo (于建國) as a nominee.
- (3) 55,690,398 shares beneficially owned by 150 non-individual shareholders and 1,115 individual shareholders in aggregate, representing approximately 7.67% of the issued share capital of Kaifeng Commercial Bank, were held by the labor union of Kaifeng Commercial Bank as a nominee.
- (4) 15,719,200 shares beneficially owned by 252 individual shareholders in aggregate, representing approximately 2.23% of the issued share capital of Luohe Bank, were held by the labor union committee of Luohe Bank as a nominee.
- (5) 16,031,232 shares beneficially owned by 555 individual shareholders in aggregate, representing approximately 1.88% of the issued share capital of Shangqiu Bank, were held by the labor union committee of Shangqiu Bank as a nominee.
- (6) 40,542,260 shares beneficially owned by 477 individual shareholders in aggregate, representing approximately 6.15% of the issued share capital of Zhoukou Bank, were held by the labor union committee of Zhoukou Bank and Zhoukou Shenda Economic Development Co., Ltd. (周口市申達經濟發展有限公司) as nominees.

On September 3, 2014, the Thirteen City Commercial Banks entered into a merger and reorganization agreement, pursuant to which, among others:

- a new joint stock company with limited liability, i.e. the Bank, shall be established through the consolidation of the Thirteen City Commercial Banks;
- each of the Thirteen City Commercial Banks shall be dissolved and deregistered;

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- all assets (including creditors' rights) and liabilities of each of the Thirteen City Commercial Banks shall be assumed by the Bank upon the completion of the Reorganization;
- the equity of the Thirteen City Commercial Banks shall be converted into the equity of the Bank based on the assessed net asset value of each of the Thirteen City Commercial Banks as of December 31, 2013;
- for the period from January 1, 2014 to June 30, 2014, the vast majority of profits of each of the Thirteen City Commercial Banks shall be appropriated in the form of general reserve and retained by the Bank, while any net profits (after appropriation of general reserve and others, if any) for the same period of each of the Thirteen City Commercial Banks shall be declared and distributed in the form of dividends by each of them to its then equity owners; and
- the results of operations of each of the Thirteen City Commercial Banks from July 1, 2014 to the date of establishment of the Bank shall be attributable to the Bank.

Subsequently, on December 23, 2014, upon completion of the consolidation of the Thirteen City Commercial Banks and with the approval from the CBRC Henan Office, the Bank was promoted and established as a joint stock company with limited liability jointly by (i) former shareholders of the Thirteen City Commercial Banks, who contributed to the Bank's registered capital with assessed net assets of the Thirteen City Commercial Banks and were entitled to 11,624,873,951 Domestic Shares with a nominal value of RMB1.00 each; and (ii) seven of the former shareholders of the Thirteen City Commercial Banks and six new investors, who contributed to the Bank's registered capital in cash and subscribed for 3,795,666,790 Domestic Shares with a nominal value of RMB1.00 each. Thereafter, the Thirteen City Commercial Banks were all dissolved and deregistered following the completion of the Reorganization.

Details of the shareholding structure of the Bank immediately after the Reorganization are set out in the following table:

Shareholders	Number of Domestic Shares held	Shareholding percentage
<i>Former shareholders of the Thirteen City Commercial Banks who contributed to the Bank's registered capital with assessed net assets of the Thirteen City Commercial Banks</i>		
Former shareholders of Xinxiang Bank .....	1,441,112,290	9.35%
Former shareholders of Sanmenxia Bank .....	1,212,506,285	7.86%
Former shareholders of Xinyang Bank .....	1,097,504,033	7.12%
Former shareholders of Xuchang Bank .....	1,093,744,046	7.09%
Former shareholders of Zhumadian Bank .....	1,087,623,633	7.05%
Former shareholders of Kaifeng Commercial Bank .....	1,027,837,476	6.67%
Former shareholders of Shangqiu Bank .....	886,591,267	5.75%
Former shareholders of Zhoukou Bank .....	751,298,721	4.87%
Former shareholders of Luohe Bank .....	740,658,621	4.80%
Former shareholders of Anyang Bank .....	624,336,899	4.05%
Former shareholders of Puyang Bank .....	620,836,000	4.03%
Former shareholders of Hebi Bank .....	544,792,567	3.53%
Former shareholders of Nanyang Bank .....	496,032,113	3.22%

## OUR HISTORY AND DEVELOPMENT

Shareholders	Number of Domestic Shares held	Shareholding percentage
<i>Former shareholders of the Thirteen City Commercial Banks who contributed to the Bank's registered capital in cash</i>		
Henan Investment Group Co., Ltd. (河南投資集團有限公司) (“ <b>Henan Investment Group</b> ”) .....	1,213,309,796	7.87%
Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) (“ <b>Yongcheng Coal and Electricity</b> ”) .....	1,157,356,994	7.51%
Henan Hanfeng Culture Development Co., Ltd. (河南漢風文化發展有限公司) .....	50,000,000	0.32%
Henan Hengchang Trading Co., Ltd. (河南省恒昌商貿有限公司) .....	35,000,000	0.23%
Henan Haihong Industrial Co., Ltd. (河南海宏實業有限公司) .....	20,000,000	0.13%
Zhumadian Hengsheng Pharmacy Chain Co., Ltd. (駐馬店恒升大藥房連鎖有限公司) .....	10,000,000	0.06%
Zhumadian Yongxin Electric Appliance Co., Ltd. (駐馬店永鑫家電有限公司) .....	10,000,000	0.06%
<i>New investors who contributed to the Bank's registered capital in cash</i>		
Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) .....	500,000,000	3.24%
Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司) .....	250,000,000	1.62%
Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) .....	200,000,000	1.30%
Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司) .....	150,000,000	0.97%
Shanghai Kimberlite Jewelry Development Co., Ltd. (上海金伯利珠寶發展有限公司) .....	100,000,000	0.65%
Zhengzhou Yongwei Property Co., Ltd. (鄭州市永威置業有限公司) .....	100,000,000	0.65%
<b>Total</b> .....	<b>15,420,540,741</b>	<b>100%</b>

The PRC legal advisors of the Bank, King & Wood Mallesons, have confirmed that the Reorganization was legally completed, and that the Bank has obtained the necessary approvals from the relevant PRC regulatory authorities.

The predecessor of the Nanyang Branch of our Bank, Nanyang Bank, obtained a borrower's equity interests in another enterprise as repossessed assets in 1998 to settle outstanding loans to which, that borrower defaulted in making repayment. We assumed such repossessed assets through the Reorganization. Prior to our Reorganization, such assets were RMB19.4 million as of December 31, 2013. Since the establishment of our Bank, we have not identified any suitable buyer. Pursuant to the relevant PRC laws and regulations, we shall dispose of such repossessed assets within two years since assuming the assets. Pursuant to the Administrative Measures on Repossessed Assets to Banks (《銀行抵債資產管理辦法》) issued by the CBRC, which does not specify any specific penalties or legal consequences for the failure to comply with such requirement, such a failure may result in actions as the relevant regulatory authority deems fit. During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any investigation or penalty in relation to such repossessed assets. We intend to continue to seek proper opportunities to dispose of such repossessed assets in due course.



## OUR HISTORY AND DEVELOPMENT

### Changes in Registered Capital

At the time of the establishment of the Bank on December 23, 2014, the initial registered capital of the Bank was RMB15,420,540,741 divided into 15,420,540,741 Domestic Shares with a nominal value of RMB1.00 each, to which the former shareholders of the Thirteen City Commercial Banks contributed by net assets of the Thirteen City Commercial Banks and the seven of the former shareholders of the Thirteen City Commercial Banks and six new investors contributed in cash. For further details, please see “ — Reorganization”.

On December 31, 2015, the registered capital of the Bank was increased to RMB16,625,000,000 by way of issuing 1,204,459,259 Domestic Shares with a nominal value of RMB1.00 each, which were subscribed by the following seven Shareholders in cash:

Shareholders	Number of Domestic Shares subscribed	Shareholding percentage
Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司) .....	300,000,000	1.80%
Henan Xingda Investment Co., Ltd. (河南興達投資有限公司) .....	300,000,000	1.80%
Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) .....	200,000,000	1.20%
Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司) .....	104,459,259	0.63%
Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司) .....	100,000,000	0.60%
Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) .....	100,000,000	0.60%
Henan Hongbao Group Co., Ltd. (河南鴻寶集團有限公司) .....	100,000,000	0.60%
<b>Total</b> .....	<b><u>1,204,459,259</u></b>	<b><u>7.23%</u></b>

The PRC legal advisors of the Bank, King & Wood Mallesons, have confirmed that the procedures for the state-owned assets valuation and filing of valuation results relating to the above changes in the Bank’s registered capital have been duly completed, and that the Bank has obtained the approvals from the relevant PRC regulatory authorities and have completed the registration procedure of the above changes with the relevant local office of the Administration of Industry and Commerce.

### Financial Restructuring

Pursuant to Yuzhengban Circular No. [2013] 100, the Notice of the General Office of Henan Province People’s Government on Circulating the Overall Plan for the Disposal of Non-performing Assets and Risks of Certain City Commercial Banks in Henan Province (Yuzhengban [2014] 95) (《河南省人民政府辦公廳關於印發河南省部分城商行不良資產及風險處置總體方案的通知》(豫政辦[2014]95號)) (“**Yuzhengban Circular No. [2014] 95**”), and the Implementation Rules for the Disposal of Historical Burdens of Certain City Commercial Banks in Henan Province (Yuchengshanggaiban [2014] 3 (《河南省部分城商行歷史包袱處置實施細則》(豫城商改辦[2014]3號)), we disposed of and transferred historical burden with a gross amount of approximately RMB5,284.3 million (primarily including certain assets of Nanyang Bank, Kaifeng Commercial Bank, Puyang Bank, Anyang Bank and Zhoukou Bank, which comprise repossessed assets of RMB3,504.3 million, investments of approximately RMB1,280.0 million, loans of approximately RMB200.0 million and intangible assets of approximately RMB300.0 million) prior to the Reorganization in 2014. Our disposals were undertaken in the forms including (i) the former shareholders of these five city commercial banks

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## OUR HISTORY AND DEVELOPMENT

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bearing approximately RMB493.0 million by way of reducing net assets of the respective banks, and (ii) Henan Investment Group acquiring the remaining historical burden at a consideration of approximately RMB4,791.3 million as specified in Yuzhengban Circular No. [2014] 95. Upon completion of such disposals of historical burden, they were removed from the balance sheets of these five city commercial banks prior to the Reorganization. Please see “Appendix IA — Note 40 — Related Party Relationship and Transactions — (b) Related Party Transactions and Balances — (v) Assets Transfer”. Our PRC legal advisor is of the view that such disposals of historical burden by us did not violate any relevant laws and regulations.

In addition, in order to continue to dispose of historical assets and improve our assets quality, we, according to the guidance of Yuzhengban Circular No. [2013] 100, transferred and sold certain loans in 2015 and 2016 with a gross amount of RMB213.8 million and RMB8,623.8 million, respectively, which had been approved to be granted prior to the Reorganization. The loans transferred in 2015 were primarily relating to borrowers in the wholesale and retail, residential community services and other services, and manufacturing industries. The transferee was one of the major asset management companies in China and the full consideration we received amounted to RMB23.0 million. The loans we transferred in 2016 were primarily relating to borrowers in the manufacturing, wholesale and retail, real estate, construction, and agriculture, forestry, animal husbandry and fishery industries. The transferees include two major asset management companies and certain other companies in Henan Province. The loans we transferred in 2016 had credit enhancement provided by Henan Government, and were transferred at a total consideration of RMB8,270.0 million. As of December 31, 2016, we had received a cash consideration of RMB6,456.8 million for the loans we transferred in 2016 and the remaining consideration was recorded as other assets after discounting based on its repayment schedule. Please see “Appendix IB — Note 20 — Loans and Advances to Customers — (g) Disposal of Loans and Advances to Customers”. Most of our loan transfers were quoted for bidding at AFCA Financial Assets Exchange (Ningxia) and Tianjin Financial Assets Exchange and the counterparties mainly included major assets management companies in the PRC.

### SUBSIDIARIES OF THE GROUP

As of the Latest Practicable Date, we had a total of 10 subsidiaries located in 10 different cities across Henan Province, the PRC. Details of our subsidiaries are set out in the following table:

Subsidiary	Date of establishment	Location	Registered capital  (RMB)	Principal business
Consumer Finance Company	December 29, 2016	Zhengzhou, Henan Province, the PRC	500,000,000	Deposits taking from domestic subsidiaries of its shareholders and from its domestic shareholder; extending individual consumer loans; incurring borrowings from domestic financial institutions; issuing financial bonds upon approval; engaging in domestic inter-bank lending; engaging in consulting and agency businesses relating to consumer finance; acting as sales agent for insurance products relating to consumer loans; engaging in fixed-income securities investment; and other businesses approved by the banking regulatory authorities. (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)

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## OUR HISTORY AND DEVELOPMENT

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Subsidiary	Date of establishment	Location	Registered capital (RMB)	Principal business
Linzhou Defeng County Bank	September 30, 2011	Linzhou, Anyang, Henan Province, the PRC	50,000,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents and acting as the insurance agent; other businesses approved by the banking regulatory authorities. (The above operating items have been carried out based on effective financial license.) (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)
Lushi Defeng County Bank	May 15, 2012	Lushi County, Henan Province, the PRC	60,000,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents; other businesses approved by the banking regulatory authorities. (Projects involving administrative permit within the business scope with the valid permit or approval documents to operate.)
Puyang Zhongyuan County Bank	March 16, 2012	Puyang County, Henan Province, the PRC	58,750,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents; other businesses approved by the banking regulatory authorities under the State Council. (Those subject to approval according to laws and regulations shall not be operated without approval.) (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)

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## OUR HISTORY AND DEVELOPMENT

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Subsidiary	Date of establishment	Location	Registered capital (RMB)	Principal business
Qixian Zhongyuan County Bank	December 23, 2010	Qi County, Hebi, Henan Province, the PRC	50,000,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents. (Those forbidden by laws and regulations shall not be operated; those subject to approval according to laws and regulations shall not be operated without approval.) (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)
Suiping Hengsheng County Bank	March 12, 2012	Suiping County, Zhumadian, Henan Province, the PRC	50,000,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents and acting as the insurance agent; other businesses approved by the banking regulatory authorities. (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)
Huipu County Bank	October 27, 2011	Xiangcheng County, Xuchang, Henan Province, the PRC	61,000,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; acting as the issuing agent, cashing agent and underwriter of government bonds; dealing in government bonds and financial bonds; engaging in inter-bank lending; engaging in debit card business; collecting and making payment as agents and acting as the insurance agent; other businesses approved by the banking regulatory authorities in China. (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)

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Subsidiary	Date of establishment	Location	Registered capital (RMB)	Principal business
Xinxiang Xinxing County Bank	March 23, 2010	Xinxiang, Henan Province, the PRC	130,000,000	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents; other businesses approved by the banking regulatory authorities. (Projects involving operating are allowed with the permit to operate.) (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)
Xinyang Pingqiao Zhongyuan County Bank	December 13, 2010	Xinyang, Henan Province, the PRC	69,600,000	Operating businesses approved by the banking regulatory commission in China according to relevant laws, administrative regulations and rules. The scope of business is subject to those listed in the approval documents. (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)
Xiping Caifu County Bank	December 17, 2009	Xiping County, Zhumadian, Henan Province, the PRC	208,524,259	Deposits taking from the public; extending short-term, medium-term and long-term loans; effecting domestic settlements; accepting and discounting instruments; engaging in inter-bank lending; engaging in bank card business; acting as the issuing agent, cashing agent and underwriter of government bonds; collecting and making payment as agents and acting as the insurance agent; other businesses approved by the banking regulatory authorities. (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority.)

### Concert Party Arrangement for Certain Subsidiaries

The Group consolidates entities controlled by the Bank., i.e. our subsidiaries. The Group ceases to consolidate a subsidiary when the Bank loses control of such subsidiary. According to applicable financial reporting standards, control is achieved if and only if the Bank has: (i) the power over the investee; (ii) exposure to risks or rights to variable returns from the Bank's involvement with the investee; and (iii) the ability to use the Bank's power over the investee to affect the amount of variable returns. As of the Latest Practicable Date, among the 10 subsidiaries of the Group, five were non-majority-owned subsidiaries, the consolidation of which is based on the concert party arrangements. During the period from December 31, 2015 to December 31, 2016, the Bank entered into acting-in-concert agreements with certain minority shareholders of these five non-majority-owned subsidiaries (the "Concert Parties"), pursuant to which, the Concert Parties agreed to communicate thoroughly before the respective shareholders' meetings of the

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non-majority-owned subsidiaries in order to align their votes with the Bank in respect of all material matters of the relevant subsidiary, and in the absence of the Concert Parties' presence during the respective shareholders' meetings of the non-majority-owned subsidiaries, the Concert Parties agreed to align their votes with the Bank by entrusting their voting rights to the Bank through power of attorney. Therefore, the Bank controls such subsidiaries as it has the power over the investees and the rights to variable returns by virtue of such power.

Details of the above-mentioned five non-majority-owned subsidiaries and their concert party arrangements are set out in the following table:

Non-majority-owned subsidiaries	Date of establishment	Effective date of control established	Parties acting in concert	Individual shareholding	Aggregate shareholding of parties acting in concert
Xiping Caifu County Bank	December 17, 2009	January 1, 2016	Our Bank	34.65%	67.64%
			Xinjiang Xinliangji Industrial Co., Ltd. (新疆新良基實業有限公司)	8.48%	
			Xinjiang Guofu Mining Project Co., Ltd. (新疆國富礦業工程有限公司)	5.93%	
			LIU Zuocheng (劉作成)	4.88%	
			Xinjiang Feihao Trading Co., Ltd. (新疆飛豪貿易有限公司)	4.66%	
			Guangdong Lingnan Renjia (Henan) Wine Making Co., Ltd. (廣東嶺南人家(河南)釀酒有限公司)	4.52%	
			Henan Yijiu Group Co., Ltd. (河南驛酒集團有限公司)	4.52%	
Lushi Defeng County Bank	May 15, 2012	January 1, 2014 <sup>(1)</sup>	Our Bank	35.00%	55.00%
			CHEN Bo (陳博)	10.00%	
			HAN Shuli (韓淑莉)	10.00%	
Suiping Hengsheng County Bank	March 12, 2012	January 1, 2015 <sup>(2)</sup>	Our Bank	45.00%	78.00%
			Henan Renmin Zaixian Internet Co., Ltd. (河南人民在線網絡有限公司)	9.00%	
			Henan Wodefeng Fertilizer Co., Ltd. (河南沃得豐肥業有限公司)	8.00%	
			Xiangcheng County Xiangqian Spinning Co., Ltd. (襄城縣向前紡織有限公司)	8.00%	
			Xiangcheng County Lianchuang Spinning Co., Ltd. (襄城縣聯創紡織有限公司)	8.00%	

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Non-majority-owned subsidiaries	Date of establishment	Effective date of control established	Parties acting in concert	Individual shareholding	Aggregate shareholding of parties acting in concert
		June 30, 2016 <sup>(3)</sup>	Our Bank	45.00%	78.00%
			Zhumadian Development Zone Yongsheng Trading Co., Ltd. (駐馬店市開發區永盛商貿有限公司)	9.00%	
			Zhumadian Gonghao Trading Co., Ltd. (駐馬店市共好貿易有限公司)	8.00%	
			Zhumadian Yicheng District Changda Trading Co., Ltd. (駐馬店市驛城區昌大商貿有限公司)	8.00%	
			Zhumadian Hengrun Trading Co., Ltd. (駐馬店市恒潤商貿有限公司)	8.00%	
Xiangcheng Huipu County Bank	October 27, 2011	January 1, 2015	Our Bank	41.00%	51.00%
			Shangqiu Huaqiang Construction Materials Co., Ltd. (商丘市華強建材有限公司)	10.00%	
Xinxiang Xinxing County Bank	March 23, 2010	January 1, 2014	Our Bank	31.54%	53.46%
			Chunjiang Group Co., Ltd. (春江集團有限公司)	10.00%	
			Henan Taiyangshi Group Cement Co., Ltd. (河南省太陽石集團水泥有限公司)	6.92%	
			Xinxiang Textile Chemical Fiber Co., Ltd. (新鄉市紡織化纖原料有限公司)	5.00%	

*Notes:*

- (1) On December 13, 2016, our Bank entered into a share transfer agreement with each of LUAN Hongxun (樂弘勳), HU Zuozhou (胡佐洲) and Lushi Defeng County Bank, respectively, pursuant to which the Bank agreed to acquire the respective shares held by each of them, including the shares previously acquired by Lushi Defeng County Bank itself from one of its shareholders due to an unsold auction during the compulsory enforcement process undertaken by the relevant PRC court against such shareholder. The above transaction is pending on the approval by the relevant regulatory authorities.
- (2) On June 30, 2016, Henan Renmin Zaixian Internet Co., Ltd., Henan Wodefeng Fertilizer Co., Ltd., Xiangcheng County Xiangqian Spinning Co., Ltd., and Xiangcheng County Lianchuang Spinning Co., Ltd. transferred their respective shares held in Suiping Hengsheng County Bank to Zhumadian Development Zone Yongsheng Trading Co., Ltd., Zhumadian Gonghao Trading Co., Ltd., Zhumadian Yicheng District Changda Trading Co., Ltd. and Zhumadian Hengrun Trading Co., Ltd. Subsequently, the Bank entered into a new acting-in-concert agreement with the abovementioned transferees.
- (3) On December 16, 2016, the shareholders of Suiping Hengsheng County Bank adopted a shareholders' resolution, pursuant to which, our Bank agreed to increase the registered capital of Suiping Hengsheng County Bank by subscribing for 6,150,000 new shares. The above transaction is pending on the approval by the relevant regulatory authorities.

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## OUR HISTORY AND DEVELOPMENT

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The PRC legal advisors of our Bank, King & Wood Mallesons, have confirmed that (i) each of these acting-in-concert agreements is legally binding on the signing parties and does not violate PRC laws, and (ii) none of the parties to the acting-in-concert agreements has the contractual right to unilaterally terminate the agreements, and pursuant to the Contract Law of the PRC, in principle, the acting-in-concert agreements may only be terminated by mutual agreements.

### SHAREHOLDING AND CORPORATE STRUCTURE

#### Shareholding Structure

As of the Latest Practicable Date, the Bank had 557 non-individual Shareholders and 9,324 individual Shareholders, all of which were domestic Shareholders, holding in aggregate approximately 95.45% and 4.55% of the Shares, respectively. Among them, two Shareholders were directly interested in 5% or more of the Shares, namely Henan Investment Group and Yongcheng Coal and Electricity, directly holding approximately 9.02% and 7.42% of the Shares, respectively. Having made due and careful inquiries, Henan Investment Group and Yongcheng Coal and Electricity are independent from each other, save that they are both ultimately wholly-owned by Henan Government. For details of these two Shareholders, please see “Substantial Shareholders”. As of the Latest Practicable Date, no nominee arrangement is involved in the Shares held by the Shareholders whose shareholding had been verified.

As of the Latest Practicable Date, the Bank was unable to verify the shareholding of 228 non-individual Shareholders and 800 individual Shareholders, holding approximately 0.71% and 0.18% of the Shares, respectively. The existence of any of such Shareholders whom the Bank is unable to contact has no material adverse impact on the ability to carry out corporate actions, such as convening Shareholders’ general meetings, declaring dividends and implementing the Listing.

#### Share Transfers prior to the Global Offering

Pursuant to the notices issued by several PRC courts demanding our assistance for enforcing judgments or judicial decisions (the “**Enforcement Assistance Notices**”), the Bank assisted with the registration for certain transfers of Shares prior to the completion of the Global Offering. Such Share transfers resulted from certain public auctions of the relevant Domestic Shares, which were identified as enforcement targets in civil proceedings, during the compulsory enforcement process undertaken by the relevant PRC courts. The Directors are of the view that such Share transfers do not constitute pre-IPO investments based on the following reasons:

- such Share transfers were as a result of the enforcement process undertaken by the relevant PRC courts, and the Bank neither voluntarily invited new investors nor encouraged the above share transfers among existing Shareholders; and
- the Bank was not aware of any relevant Share transfers until it received the Enforcement Assistance Notices, as neither the Bank nor the relevant Shareholders have control over the share transfers, and the Bank is obligated to assist with the registration for the Share transfers as soon as practicable upon receiving the Enforcement Assistance Notices.

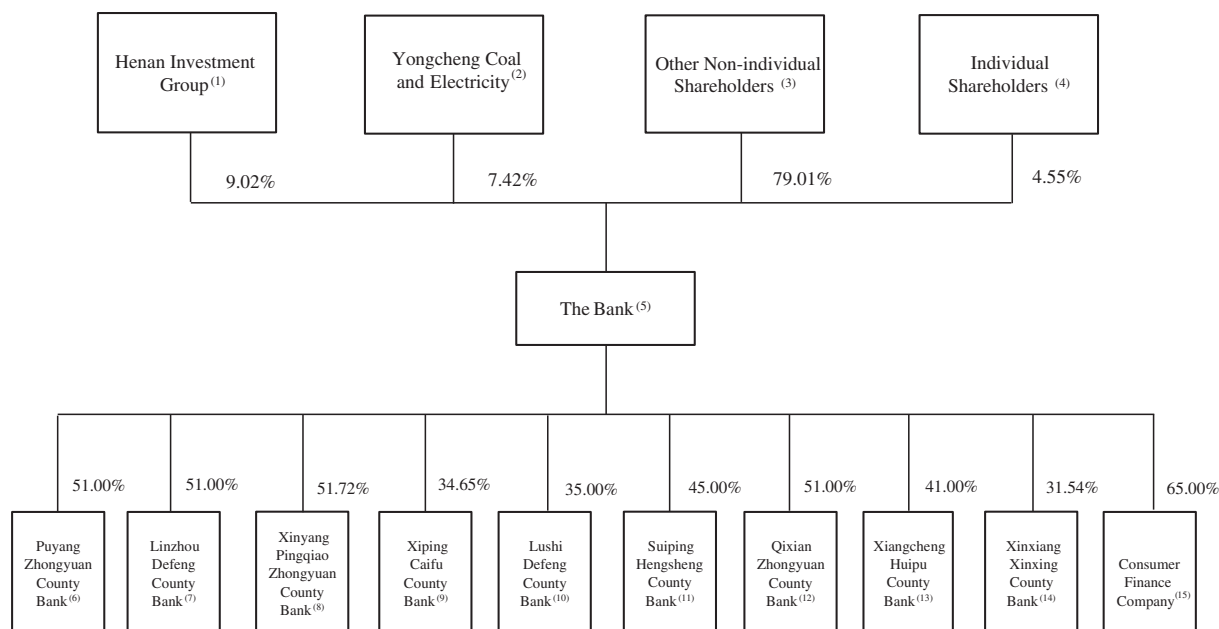
From the date of the establishment of the Bank and as of the Latest Practicable Date, 324,629,554 Domestic Shares in aggregate, representing approximately 1.95% of the total issued share capital of our Bank, were transferred due to the abovementioned Enforcement Assistance Notices.



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### Immediately prior to the Global Offering

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



#### Notes:

- (1) Henan Investment Group is the single largest Shareholder and one of the state-owned Shareholders. It is wholly-owned by the Henan Provincial Development and Reform Commission (河南省發展和改革委員會). Henan Investment Group is the investment and finance platform of Henan Government which invests and manages various kinds of financial institutions, modern logistics, infrastructure project and high-tech projects, etc.
- (2) Yongcheng Coal and Electricity is one of the state-owned Shareholders. It is wholly-owned by Henan Energy and Chemical Engineering Group Co., Ltd., which is in turn wholly-owned by Henan SASAC. The principal business of Yongcheng Coal and Electricity includes the investment and management in the industries of coal, railway, chemical engineering and mining. As of the Latest Practicable Date, all of the Shares held by Yongcheng Coal and Electricity were pledged. Such pledge of Shares will be enforced if Yongcheng Coal and Electricity is in default of its obligations to the relevant creditors.
- (3) As of the Latest Practicable Date, 555 other non-individual shareholders held approximately 79.01% of the Shares in aggregate. The shareholding percentage of each of these non-individual shareholders does not exceed 5.00%.
- (4) As of the Latest Practicable Date, 9,324 individual shareholders held approximately 4.55% of the Shares in aggregate. The shareholding percentage of each of these individual shareholders does not exceed 5.00%.
- (5) As of the Latest Practicable Date, 7,065,420,338 Shares (representing approximately 42.4988% of the Shares) held by 91 Shareholders were pledged, and 978,569,560 Shares (representing 5.89% of the Shares) held by 78 Shareholders were frozen by several judicial bodies.
- (6) The remaining 49.00% of the issued share capital was held by Zhongyou Logistics Co., Ltd. (中油物流有限公司), Puyang Shiji Logistics Group Co., Ltd. (濮陽世紀物流集團有限公司), LI Kai (李開), CAO Yunfu (曹雲甫), BAI Cuiying (白翠英), JIANG Guifen (姜桂芬), LIU Hongfang (劉紅方), WU Baoyin (吳保印), LI Cuimei (李翠梅) and LIU Liru (劉麗茹) as to 8.00%, 4.00%, 5.00%, 5.00%, 5.00%, 5.00%, 5.00%, 4.00%, 4.00% and 4.00%, respectively. All above shareholders of Puyang Zhongyuan County Bank are independent third parties of the Bank.
- (7) The remaining 49.00% of the issued share capital was held by Anyang Guofeng Alloy Co., Ltd. (安陽國豐合金有限責任公司), Linzhou Chicheng Taxi Co., Ltd. (林州市馳騁出租汽車有限公司), Anyang Guochang Metal Alloy Co., Ltd. (安陽國昌鐵合金有限責任公司), ZHAO Songzhou (趙松州), XIN Youqin (辛有芹), GUO Zhipeng (郭志鵬), HOU Yanhong (侯艷紅), LI Jinxi (李金喜), CHENG Qiaolin (程巧林), HAO Yongfeng (郝永峰) and ZHOU Dang (周黨) as to 4.60%, 3.00%, 2.00%, 9.00%, 9.00%, 6.00%, 6.00%, 4.20%, 3.00%, 1.20% and 1.00%, respectively. All the above shareholders of Linzhou Defeng County Bank are independent third parties of the Bank.

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## OUR HISTORY AND DEVELOPMENT

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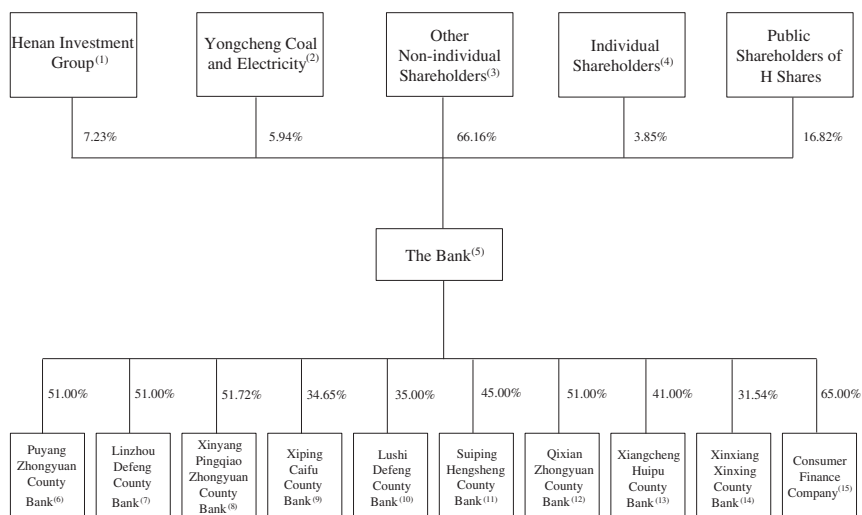
- (8) The remaining 48.28% of the issued share capital was held by Xinyang Pingqiao Agriculture Comprehensive Finance Development Co., Ltd. (信陽市平橋區農業綜合財務開發公司), Henan Wujian Second Construction and Installation Co., Ltd. (河南五建第二建築安裝有限公司), Xinyang Jiamei Decoration Engineering Co., Ltd. (信陽市佳美裝飾工程有限公司), Xinyang Wuyue Industry Co., Ltd. (信陽五嶽實業有限公司), Xinyang Fuhai Holdings Co., Ltd. (信陽富海控股有限公司), Xinyang Longjiang Property Development Co., Ltd. (信陽龍江房地產開發有限公司), LU Hong (魯紅), CUI Wen (崔文), HU Xiangyu (胡相雲), HUANG Deyou (黃德友), CHEN Zhenlin (陳真林), WU Yuanxin (鄔元信), ZHANG Quanfeng (張全鋒), HUANG Qiang (黃強), CHENG Ziang (程子昂), YU Lуго (餘祿國), YANG Yunli (楊允麗), ZHENG Dezhi (鄭德誌), HE Huan (何歡), WANG Linlin (王林林), GAO Xiurong (高秀榮), WANG Yaqin (王亞琴), GUO Rong (郭榮) and ZHENG Wei (鄭薇) as to approximately 3.45%, 8.62%, 2.76%, 9.83%, 5.17%, 3.45%, 2.41%, 1.03%, 0.86%, 0.34%, 0.86%, 0.86%, 0.34%, 0.52%, 0.86%, 0.52%, 0.86%, 0.52%, 0.34%, 0.86%, 0.34%, 1.72%, 0.86% and 0.86%, respectively. HU Xiangyun (胡相雲) is the vice chairperson of the Bank and an executive Director, and HU Xiangyu (胡相雲), HUANG Deyou (黃德友), CHEN Zhenlin (陳真林), WU Yuanxin (鄔元信), ZHANG Quanfeng (張全鋒), HUANG Qiang (黃強) and YANG Yunli (楊允麗), are the Shareholders. Save as the above, all other shareholders of Xinyang Pingqiao Zhongyuan County Bank are independent third parties of the Bank.
- (9) The remaining 65.35% of the issued share capital was held by Guangdong Lingnan Renjia (Henan) Wine Co., Ltd. (廣東嶺南人家(河南)釀酒有限公司), Henan Yiji Group Co., Ltd. (河南驛酒集團有限公司), Henan Dingli Ganta Co., Ltd. (河南鼎力桿塔股份有限公司), Zhumadian Yicheng Tianzhong Vehicles Sales Co., Ltd. (駐馬店市驛城區天中汽車銷售有限公司), Henan Hengfeng Logistics Co., Ltd. (河南省恒豐物流有限公司), Henan Fengyuan Hepu Fodder Co., Ltd. (河南豐源和普飼料有限公司), Xiping Jiding Commodity Concrete Co., Ltd. (西平金鼎商品混凝土有限公司), Henan Huyuanlong Meat Products Co., Ltd. (河南華源隆肉製品有限公司), Henan Kaiwei Ganggou Co., Ltd. (河南凱威鋼構有限公司), Xiping Dingli Properties Co., Ltd. (西平鼎力置業有限公司), Suiping Huasheng Properties Co., Ltd. (遂平華盛房產有限公司), Xiping Jilong Dairy Co., Ltd. (西平縣金龍牧業有限公司), Xinjiang Fuguo Mining Engineering Co., Ltd. (新疆富國礦業工程有限公司), Xinjiang Feihao Trading Co., Ltd. (新疆飛豪貿易有限公司), Xinjiang Xinliangji Industry Co., Ltd. (新疆新良基實業有限公司), ZHANG Qingling (張慶靈), QIN Jianhua (秦建華), YIN Ling (殷伶), HOU Zhiyuan (侯誌遠), LIU Zuocheng (劉作成), and ZHENG Chaohui (鄭朝輝) as to approximately 4.52%, 4.52%, 4.46%, 1.81%, 1.81%, 1.81%, 1.81%, 2.65%, 3.61%, 0.96%, 2.56%, 0.96%, 5.93%, 4.66%, 8.48%, 0.32%, 0.60%, 3.25%, 3.22%, 4.88% and 2.53%, respectively. ZHANG Qingling (張慶靈), QIN Jianhua (秦建華), YIN Ling (殷伶), HOU Zhiyuan (侯誌遠) and LIU Zuocheng (劉作成) are the Shareholders. Save as the above, all other shareholders of Xiping Caifu County Bank are independent third parties of the Bank. Xiping Caifu County Bank is deemed to be a subsidiary under our control. For details, please see “— Concert Party Arrangement for Certain Subsidiaries”.
- (10) The remaining 65.00% of the issued share capital was held by Sanmenxia Zhongyuan Liangyi Co., Ltd. (三門峽中原量儀股份有限公司), Henan Zhongyin Decoration Engineering Co., Ltd. (河南中銀裝飾工程有限公司), YANG Zhenfu (楊振富), CHEN Bo (陳博), HAN Shuli (韓淑莉), LIU Kewei (劉科偉), LI Yangzi (李陽子), TANG Feng (唐鋒) and WU Di (吳迪) as to 5.00%, 5.00%, 10.00%, 10.00%, 10.00%, 10.00%, 5.00%, 5.00% and 5.00%, respectively. All the above shareholders of Lushi Defeng County Bank are independent third parties of the Bank. Lushi Defeng County Bank is deemed to be a subsidiary under our control. For details, please see “— Concert Party Arrangement for Certain Subsidiaries”.
- (11) The remaining 55.00% of the issued share capital was held by Zhumadian Kaifagu Yongsheng Trading Co., Ltd. (駐馬店市開發區永盛商貿有限公司), Zhumadian Gonghao Trading Co., Ltd. (駐馬店市共好貿易有限公司), Zhumadian Yicheng Changda Trading Co., Ltd. (駐馬店市驛城區昌大商貿有限公司), Zhumadian Hengrun Trading Co., Ltd. (駐馬店市恒潤商貿有限公司), GAO Hui (高輝), CHEN Qian (陳倩), MA Zhanying (馬占營), YAO Junhua (姚俊華), YAO Huamin (姚華民) and WANG Wenqian (王文倩) as to 9.00%, 8.00%, 8.00%, 8.00%, 4.00%, 4.00%, 4.00%, 2.00%, 4.00% and 4.00%, respectively. All the above shareholders of Suiping Hengsheng County Bank are independent third parties of the Bank. Suiping Hengsheng County Bank is deemed to be a subsidiary under our control. For details, please see “— Concert Party Arrangement for Certain Subsidiaries”.
- (12) The remaining 49.00% of the issued share capital was held by Henan Qixian Yongda Food Co., Ltd. (河南省淇縣永達食業有限公司), Hebi Hongda Engineering Construction Co., Ltd. (鶴壁市宏大工程建設有限公司), Hebi Heyou Property Development Co., Ltd. (鶴壁市合友房地產開發有限公司), Hongxian Xinghe Livestock Development Co., Ltd. (淇縣興和畜牧開發有限公司), ZHAO Sumei (趙素梅), JIN Changqing (金常青) and ZHANG Xiuling (張秀玲) as to 9.60%, 10.00%, 10.00%, 10.00%, 4.00%, 4.00% and 1.40%, respectively. Hebi Hongda Engineering Construction Co., Ltd. (鶴壁市宏大工程建設有限公司), Hebi Heyou Property Development Co., Ltd. (鶴壁市合友房地產開發有限公司) are the Shareholders. Save as the above, all other shareholders of Qixian Zhongyuan County Bank are independent third parties of the Bank.

## OUR HISTORY AND DEVELOPMENT

- (13) The remaining 59.00% of the issued share capital was held by Shangqiu Huaqiang Building Materials Co., Ltd. (商丘市華強建材有限公司), Henan Dayu Mining Co., Ltd. (河南大禹礦業有限公司), Yuzhou Hongbao Silk and Cotton Textile Co., Ltd. (禹州市鴻寶絲棉紡織有限公司), Zhengzhou Dong Jiancai Nanqu Lide Decoration Materials Trading Firm (鄭州東建材南區驪德裝飾材料商行), Henan Daozhiwan Culture Media Co., Ltd. (河南道之萬文化傳媒有限公司), ZHAO Jinhong (趙金紅), AI Zhenping (艾振萍), LI Lanhua (李蘭花) and WANG Jianqi (王建奇) as to 10.00%, 10.00%, 7.00%, 7.00%, 4.00%, 6.00%, 5.00%, 5.00% and 5.00%, respectively. Shangqiu Huaqiang Building Materials Co., Ltd. (商丘市華強建材有限公司) is the Shareholder. Save as the above, all other shareholders of Xiangcheng Huipu County Bank are independent third parties of the Bank. Xiangcheng Huipu County Bank is deemed to be a subsidiary under our control. For details, please see “— Concert Party Arrangement for Certain Subsidiaries”.
- (14) The remaining 68.46% of the issued share capital was held by Chunjiang Group Co., Ltd. (春江集團有限公司), Henan Taiyangshi Group Cement Co., Ltd. (河南省太陽石集團水泥有限公司), Henan Dongyue Casting Co., Ltd. (河南東嶽鑄造有限公司), Beijing Shuangquan Property Development Co., Ltd. (北京雙全房地產開發有限公司), Beijing Longyuan Lvmei Technology Co., Ltd. (北京龍源綠鎂科技有限公司), Huachuan Yihe Mining Co., Ltd. (樺川怡和礦業有限公司), Huixian Huitong Logistics and Trading Co., Ltd. (輝縣市匯通物貿有限公司), Xinyang Yangguang Hardware Co., Ltd. (新鄉市陽光金屬製品有限公司), Xinxiang Textile and Chemical Fiber Raw Materials Co., Ltd. (新鄉市紡織化纖原料有限公司), LUO Dejun (駱德軍), ZHU Huiru (朱會如) and WANG Jianying (王健鶯) as to approximately 10.00%, 6.92%, 5.38%, 10.00%, 10.00%, 10.00%, 3.08%, 1.54%, 5.00%, 5.00%, 0.77% and 0.77%, respectively. All above shareholders of Xinxiang Xinxing County Bank are independent third parties of the Bank. Xinxiang Xinxing County Bank is deemed to be a subsidiary under our control. For details, please see “— Concert Party Arrangement for Certain Subsidiaries”.
- (15) The remaining 35.00% of the issued share capital was held by Shanghai Yiqian Network Information Technology Co., Ltd. (上海伊千網絡信息技術有限公司), which is a substantial shareholder of Consumer Finance Company, and thus a connected person of the Bank at the subsidiary level by virtue of Rule 14A.06(9) of the Listing Rules.

### 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.



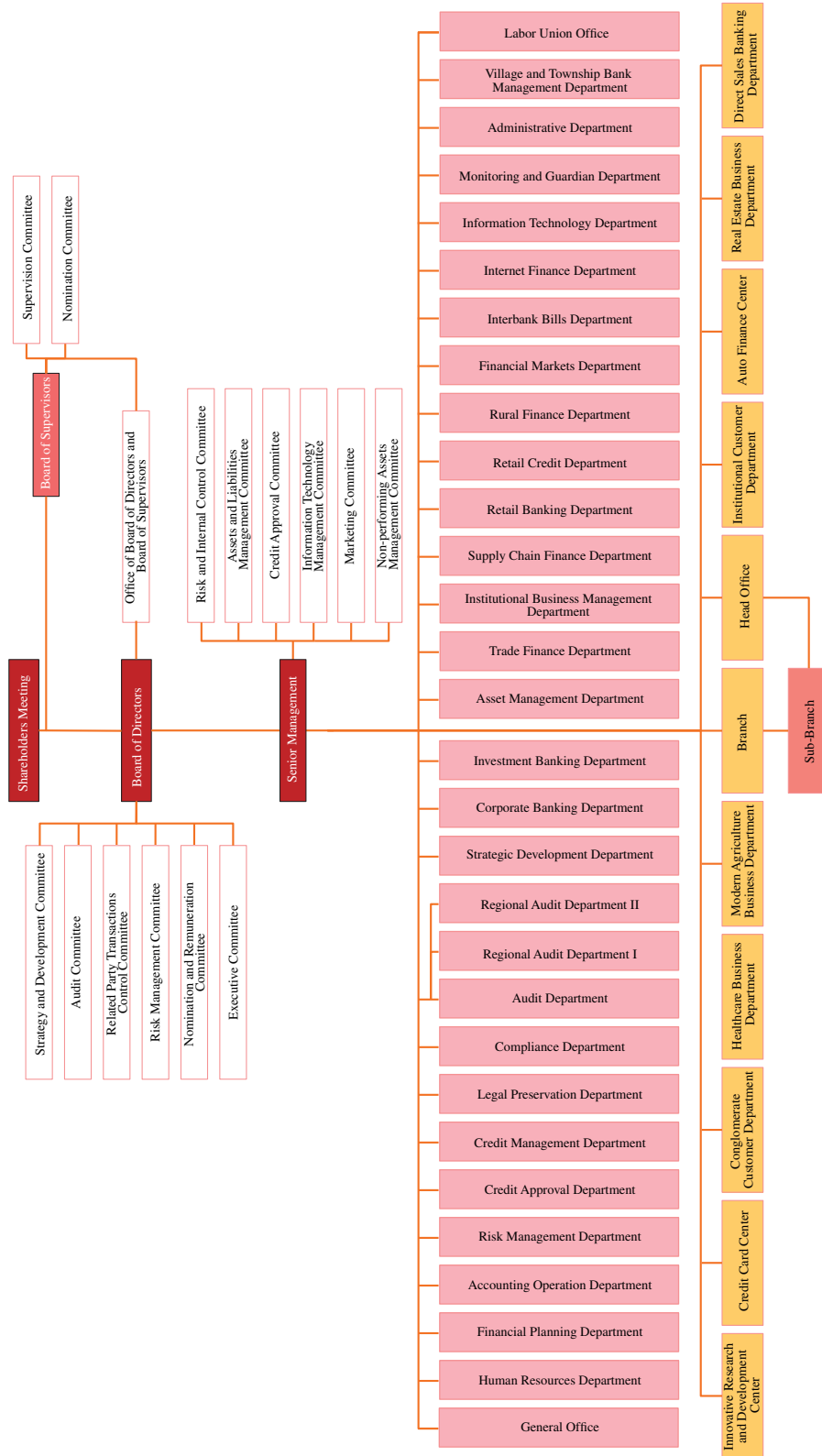
Notes:

(1)-(15) Please see corresponding notes on pages 162 to 164.

# OUR HISTORY AND DEVELOPMENT

## Organizational Structure

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



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## OUR HISTORY AND DEVELOPMENT

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### **Corporate Governance Structure**

The Bank has established a corporate governance structure which comprises the Shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management.

#### ***Board of Directors***

The Board of Directors is accountable to the Shareholders' general meeting and consists of professionals with diversified backgrounds and qualifications. The major responsibilities of the Board of Directors include determination of policies in relation to business planning, investment planning, risk management, internal control and compliance, determination of medium- and long-term business strategies and material business development plans, formulating capital replenishment plans, listing plans and plans of applying capital funds raised, and the appointment and dismissal of the senior management of the Bank. The Board of Directors delegates certain powers to its special committees, including the Strategy and Development Committee, the Nomination and Remuneration Committee, the Related Party Transactions Control Committee, the Risk Management Committee and the Audit Committee. Each committee shall report to the Board of Directors. For details of the functions of each committee, please see "Directors, Supervisors and Senior Management — Committees under the Board".

#### ***Board of Supervisors***

The Board of Supervisors is accountable to the Shareholders' general meeting and is responsible for supervising the performance of the Board and the senior management as well as financial activities, risk management and internal control. The Board of Supervisors conducts special surveys on specific areas and attends important meetings in order to understand the operation and management of the Bank and provide supervisory advice, and also supervises the implementation of such advice from time to time. The Board of Supervisors has established a Nomination Committee and a Supervision Committee, which shall report to the Board of Supervisors.

#### ***Senior Management***

The senior management of the Bank has the powers vested by the Board of Directors to manage the daily operations of the Bank. The president of the Bank is primarily responsible for carrying out the decisions made by our Board of Directors and shall report to the Board of Directors. The Bank has also appointed four vice presidents and other senior management members to work with the president of the Bank and perform their respective management responsibilities.

### **Operational Reform**

To meet the requirement of the development of the Bank and the industry's regulation, the Bank has continuously sought to improve our management and operations and have implemented reform and improvement measures in areas including corporate governance, organizational structure, risk management, human resources and information technology. For further information, please see "Business" and "Risk Management".

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## OUR HISTORY AND DEVELOPMENT

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### The Party Committee

According to “The Constitution of the Communist Party of China”, the Bank established the Committee of Communist Party of China of Zhongyuan Bank Co., Ltd. (the “**Party Committee**”), which plays a core political role in the Bank. The Party Committee mainly assumes the following responsibilities:

- providing guidance for the Bank in its business operation, development and reform to ensure the Bank conduct business and further grow in line with general principles set forth in applicable PRC laws and regulations as well as requirements and decisions of the Party Committee;
- enhancing the construction of the Party Committee, continuously improving the education of the Bank’s employees to help them better understand and adhere to the requirements under the spirit of the Communist Party of China, and to help cultivate the Bank’s corporate culture;
- proactively promoting the latest policies and strategies of the PRC and the Communist Party of China, supporting different types of organizations within our Bank to fulfill their functions independently in accordance with applicable laws and their respective constitutional documents, including organizations of general public, labour union and the communist youth league of our Bank; and
- supervise and supporting the Shareholder’s general meetings, the Board, the board of Supervisors and the management team to fulfill their functions in accordance with applicable laws and regulations.

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## BUSINESS

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### OVERVIEW

We are the largest city commercial bank in Henan Province, in terms of total assets, total deposits from customers, total loans to customers, total shareholders' equity, the operating income and total number of outlets as of and for the year ended December 31, 2016, according to the CBRC Henan Office. We are the only city commercial bank directly administered by the provincial government in Henan Province. We ranked 210<sup>th</sup> among the “Top 1000 World Banks” in terms of tier-one capital as of December 31, 2015 by *The Banker* in 2016, being the 31<sup>st</sup> among all PRC commercial banks, and the 9<sup>th</sup> among all PRC city commercial banks on this list.

We invested in building up a business network with comprehensive coverage across Henan Province. As of December 31, 2016, we had one head office, 17 branches, 421 sub-branches, including 305 city-level sub-branches, 116 county-level and township-level sub-branches, and a total of 439 outlets, which covered all 18 prefectural-level cities and 82 counties, representing approximately 80% of all counties across Henan Province. In addition, leveraging favorable policies promulgated by the Henan Government, including “Opinions on Accelerating the Development of Zhongyuan Bank (《關於加快中原銀行發展的意見》)”, we successfully established and enhanced long-term relationships with government agencies, public institutions and enterprises with strategic importance in Henan Province and China. As of the Latest Practicable Date, our corporate banking customers included many leading state-owned and private enterprises in Henan Province, covering a wide range of industries.

Since the establishment of our Bank, we have invested in the development and application of advanced financial technology to establish and maintain our competitiveness, in particular, technologies that are crucial to our business operations and internal management. Capitalizing on our in-depth knowledge of our customers' preferences for financial products and services in the Internet era, we have established a competitive edge over our industry peers by promoting various products and services with strong technology capabilities. In 2016, we were granted “Gold Reputation Financial Technology Security Award (金口碑金融科技安全獎)” by the *Modern Bankers* and Hongru Financial Education Foundation (鴻儒金融教育基金會) in recognition of our achievements in providing technical support to our customers for secured electronic transactions.

Our total assets grew at a CAGR of 44.7% from RMB206,947.8 million as of December 31, 2014 to RMB433,071.4 million as of December 31, 2016. According to the CBRC Henan Office, our market share in terms of total assets, total deposits from customers, total loans to customers and operating income was 6.1%, 4.8%, 4.3% and 5.5% as of and for the year ended December 31, 2016, respectively, among all banks in Henan Province.

We have received several honors and awards for our business performance and management capabilities. For example:

- In 2015 and 2016, we were recognized as “The Best City Commercial Bank (年度最佳城市商業銀行)” by the Institute of Finance and Banking of the Chinese Academy of Social Science (中國社科院金融研究所) and *Financial News* (金融時報).
- In recognition of our outstanding performance in the interbank domestic currency market, we were granted “The Best City Commercial Bank Award in the Interbank Domestic Currency Market (銀行間本幣市場最佳城市商業銀行獎)” in 2015 and “The Outstanding Dealer in the Interbank Domestic Currency Market (銀行間本幣市場優秀交易商)” in 2016 by China Foreign Exchange Trading System & National Inter-bank Funding Center.

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- In 2015, in recognition of our outstanding contribution to the real economy, we were awarded the “Best Bank in Serving the Real Economy (最佳服務實體經濟銀行獎)” by Henan Banking Association (河南省銀行業協會).
- In 2015, in recognition of our contribution to the local economy, we were granted the “2014 Best Service to Local Economy Award (2014年度最佳服務地方經濟獎)” by *Modern Bankers*.

### OUR COMPETITIVE STRENGTHS

**Being the largest city commercial bank in Henan Province, we have been continuously benefiting from Henan Province’s rapid economic development brought by China’s further economic reform.**

We are the largest city commercial bank in Henan Province in terms of total assets, total deposits, total loans to customers, total shareholder’s equity, the operating income and total number of outlets as of and for the year ended December 31, 2016 according to CBRC Henan Office. In 2016, we were ranked 210<sup>th</sup> among the “Top 1000 World Banks” in terms of tier-one capital as of December 31, 2015 by *The Banker*, and ranked 31<sup>st</sup> among all PRC commercial banks, and ranked 9<sup>th</sup> among all PRC city commercial banks named in this list.

Henan Province has achieved rapid economic development in recent years. Since 2010, its GDP has been ranked 5<sup>th</sup> in China and first in Central China for seven consecutive years. We believe this growth depends on, and will continue to benefit from, the following factors:

- Henan Province is one of the largest provinces in China in terms of population with a total population amounted to 107.9 million and an urbanization rate of 46.6% by the end of 2016, indicating a huge potential for further urbanization. Taking into account the expected continuous growth in urban and rural residents’ income, it is expected that financial industries will experience a strong growth in the foreseeable future.
- Benefiting from its strategic geographic location as an important transportation hub and materials distribution center in China, Henan Province has already established a leading position in various industries, including food processing, light industry, new materials, digital information, equipment manufacturing and automotive industries. As of December 31, 2016, Henan Province had nine national economic development zones and seven national high-tech industrial development zones, ranking first in Central China.
- Henan Province is experiencing rapid economic development by leveraging favorable policies promulgated by the PRC government, and it has steadily become an important pillar supporting China’s current economic transformation. In 2011, the State Council promulgated “Central Plains Economic Zone (中原經濟區)” explicitly setting out the economic development plan for Central China with a focus on Henan Province. In 2013, China put forward the initiative of “One Belt, One Road (一帶一路)” which listed Henan Province as the core part of China’s transportation network, making it an important hub for transportation, logistics, goods and resources distribution for implementation of this national strategy. In March 2013, in line with the “One Belt, One Road (一帶一路)” initiative, the State Council approved the construction of the first pilot airport economic zone with national strategic importance, namely “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合實驗區)”, which is designed to become an important international airport logistics center in China and an important national passenger transit center, thus promoting the development of import and export industries in Henan Province and cross-border e-commerce. On April 1, 2017, the State Council



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officially established the “China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)”, leveraging Henan Province’s advantages in modern transportation and logistics system to create a high-end service platform for the further opening up of China’s economy. Please also see “Industry Overview” for further details.

We are the only city commercial bank directly administered by provincial government in Henan Province. As of December 31, 2016, we ranked first among city commercial banks in Henan Province in terms of the number of outlets in Henan Province. Since our establishment, we have benefited from favorable policies issued by the Henan Government encouraging development of local financial institutions, including, “Opinions on Accelerating the Development of Zhongyuan Bank (《關於加快中原銀行發展的意見》)” collectively issued by various departments of Henan Province in 2015. Leveraging the favorable policy environment and the extensive experience of our management team, we have built our business with high conformance with the regional economy, thus creating strong competitive edges over our industry peers. In particular, we have established a comprehensive business network covering entire Henan Province with national reach, supported by advanced information technology and sound risk management system. Furthermore, leveraging our deep understanding of Henan Province’s economy, we have further penetrated into urban, county and rural markets, providing customers with convenient and tailor-made financial products and services embodying our advanced technological capabilities and business philosophy.

According to CBRC Henan Office, as of December 31, 2016, our market shares among all banks in Henan Province in terms of total assets, total deposits, total loans to customers and operating income as of and for the year ended 31 December 2016, were 6.1%, 4.8%, 4.3% and 5.5% respectively.

**Led by our visionary and ambitious management team, we built up a highly effective management structure and governance mechanism with reference to leading nationwide joint-stock commercial banks in China, laying a solid foundation for our rapid business development.**

We believe the core competitiveness of our Bank rests upon the talents we retain and the management system we adopt. Since our establishment, we took efforts in building up our talent recruitment and cultivation system, organizational structure and management system with a reference to the successful experience of leading nationwide joint-stock commercial banks in China, through which we have successfully laid a solid foundation for our long-term sustainable development.

Members of our core management team were recruited through rigorous open-market selection, and enjoy strong market recognition for their outstanding achievements, their insights into Henan Province’s economy and rich first-hand experience in banking industry. Our Chairman, Mr. DOU Rongxing, has extensive experience in the banking industry of which he had profound understanding. He used to be a senior management member at China Merchants Bank and China CITIC Bank, as well as Financial Services Office in Henan Government. Our president, Mr. WANG Jiong, has over 20 years of work experience in the banking industry. He has served as senior management of China CITIC Bank’s Haikou and Zhengzhou branches, China Guangfa Bank and China Construction Bank for many years, through which he obtained in-depth understanding of banking business. Mr. DOU Rongxing was recognized as the “Annual Henan Economic Leading Person (河南經濟年度人物)” in 2015 by Henan Province Development and Reform Commission and other nine governmental departments, and Mr. WANG Jiong was awarded the same recognition in 2016. We also adopted a modern board structure at a very early stage of our development, focusing on the supervisory role of independent directors in our business operations. Our independent non-executive director, Mr. JIA Tingyu, is primarily

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responsible for supervising and providing independent advice on our overall operations and management. He has over 50 years of experience in banking operations and management and held senior positions in charge of risk management in different banks and institutions in China, including Hang Seng Bank (China) Limited and China CITIC Bank. Under the leadership of our core management team, we have successfully built an enterprising bank culture, with a high degree of professional competence and execution capability in our management teams and employees.

We designed our organization structure and management system to capture business opportunities and cater for customer needs. We set up six business divisions in 2015, each focusing on one specific industry sector or customer segment, namely, Healthcare Business Department, Modern Agriculture Business Department, Auto Finance Center, Institutional Customer Department, Real Estate Business Department, and Conglomerate Customer Department, through which we have successfully secured a leading position in key sectors that drive continuous economic development in Henan Province and China. For the year ended December 31, 2016, the total loans and total deposits of our six business divisions increased by 73.0% and 44.0%, respectively as compared to 2015. In addition, we established two business units in Beijing and Shanghai for financial products design and development as well as technologies and policy research. This approach allows us to tap into local talents and efficiently participate in strategically crucial innovative projects in PRC banking industry, while obtaining latest technological information useful for business operations and risk management.

With the core value of being “prudent, innovative, enterprising and efficient (穩健，創新，進取，高效)”, we have developed a culture of performance-oriented and fair competition. In selecting department heads and working members, we recruit from the open market to locate candidates with thorough understanding of regional economy, entrepreneurial spirit and advanced skill set, so that we can ensure proper implementation of our development strategies in daily work. We strategically design different internal training programs to equip our employees of different seniority and function departments with the necessary skills and techniques, through which, we have cultivated a professional talent pool that ensures our sustainable development. Please also see “— Employees”.

**Based on our in-depth understanding of internet finance, we have become an industry pioneer in product innovation through continuous investment in information technology.**

We take “Technology Arms the Bank (科技立行)” as a key development strategy. Since our establishment, we invested in the development and application of advanced financial technology to establish and maintain our competitiveness, in particular, technologies that are crucial to our business operations and internal management. Capitalizing on our in-depth knowledge on customers’ preference for financial products and services in the Internet era, we have built up competitive edges over our industry peers by promoting various products and services with strong technological capabilities. In 2016, we were granted “Gold Reputation Financial Technology Security Award (金口碑金融科技安全獎)” by the *Modern Bankers* and Hongru Financial Education Foundation (鴻儒金融教育基金會) in recognition of our achievements in providing technical support to our customers for secure electronic transactions.

During our Reorganization, we adopted a visionary strategy for building an integrated information technology system featuring stable and cost-efficient operations in supporting our business decision-making and risk management. We have built up an integrated information technology platform with advanced capabilities of applying big-data and cloud computing technology, which allows us to efficiently collect, store, analyze and process vast amount of data in a short period of time, so that we could achieve higher effectiveness in decision-making, real-time supervision and management, secured data storage and migration. Please see “— Information Technology”. As a part

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of our strategy of “Internetization and Ruralization of Banking Services (上網下鄉)”, we have successfully utilized advanced technologies to allow our clients to conveniently access our services and products through a broad range of terminals, including online banking, mobile banking and WeChat banking. For the year ended December 31, 2016, the corporate banking customer transactions and retail banking customer transactions processed through our electronic banking increased by 63.4% and 64.7%, respectively, as compared to 2015, and accounted for 78.1% and 82.9% of the total number of corporate banking customer transactions and retail banking customer transactions, respectively.

We actively participated in pioneering information technology research and development programs in order to keep up with the latest technology trends in the PRC banking industry. In December 2016, we became a member of “Financial Blockchain Shenzhen Consortium (金鏈盟)”, with the aim to research and explore methods of applying blockchain technology into daily banking business operations, so as to more effectively collect, analyze, process and manage relevant data thereby improving the convenience and security of financial services. Being a member of this consortium allows us to gain access to the latest development in financial technology and adopt practical research results in our business operations.

In addition, by targeting the market opportunities from customers’ growing reliance on online transactions, we have developed a series of well-recognized products and services. In October 2016, we launched “Yong Xu Dai (永續貸)” which allows borrowers to apply online and, upon approval, to draw down the loans by installments at any time and on a revolving basis. In determining whether to extend such loans, we generally receive online applications and utilize our advanced information technology system to instantly review and analyze vast amount of data from public or third-party proprietary database, and at the same time to efficiently identify eligible loan candidates, thus improving efficiency of our business operations. Meanwhile, it substantially enhanced customer experience by offering them convenient and comfortable interaction procedures. In recognition of our achievements in terms of products innovation and our big-data analysis capabilities, we were granted “The Outstanding Contribution Award for Product Innovation in Financial Industry in 2016 (2016年度金融行業產品創新突出貢獻獎)” by *Financial Computerizing*. In addition, we launched “Miao Dai (秒貸)” loan products in 2015, where every step can be completed online, from application submission and review, loan disbursement to repayment.

### **Our corporate banking, retail banking and rural financial services highly accord with Henan Province’s economy.**

- *Capitalizing on our leading market position and capacity of offering comprehensive products and services, we have successfully established strong competitive edge in corporate banking business.*

As the only city commercial bank directly administered by provincial government in Henan Province, we received strong support from the Henan Government in entering into strategic cooperation agreements with local governments, allowing us to open designated accounts for fiscal and social security funds, provide payroll and settlement services, participate in prominent projects, including collection and payment services and debt securities underwriting for key state-owned enterprises. As of the Latest Practicable Date, we entered into strategic cooperation agreements with different governments in 17 cities and 10 counties directly administered by the provincial government, enabling us to provide consultation and financial services for infrastructure construction projects, local industrial restructuring and upgrading, implementation of agriculture modernization, reform and innovation of rural financial service as well as development of small and micro enterprises.

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Capitalizing on our continuous efforts and investments in product innovation and consolidation of inter-bank resources, we have established the market recognition of “investment banking + transaction banking (投資銀行+交易銀行)” featuring strong capacity in offering comprehensive financial products and services. In 2016, we, serving as the custodian bank, participated in issuance of ABS programs of two well-recognized real estate developers in Henan Province, where the securities were backed by property management fee receivables. In one of these two programs, we also served as a financial advisor. During the Track Record Period, we successfully expanded our business scope and obtained new permits and licenses for various new products and services, including foreign exchange and international settlement. In addition, in March 2017, we became the only agency bank to offer departure tax refund in Henan Province. We have also established long-term business relations with many leading state-owned and private enterprises in Henan Province. As of December 31, 2016, our corporate banking customers included 61 enterprises listed in “2016 Top 100 Manufacturing Enterprises in Henan Province (河南省2016年度百強工業企業)” recognized by Henan Government and 47 out of all 74 public listed companies in Henan Province as of the same date, covering a broad range of industries, including digital information, equipment manufacturing, automotive, food processing, light industry and new materials industries.

In 2015 and 2016, we ranked first consecutively, in terms of corporate deposits growth rate in Henan Province. According to CBRC Henan Office, we were the 6<sup>th</sup> largest bank in Henan Province in terms of total RMB-denominated corporate deposits as of December 31, 2016, four places higher than our ranking as of December 31, 2014. As of December 31, 2016, our market share of Henan Province in terms of RMB-denominated corporate deposits amounted to 7.08%, rising from 4.59% as of December 31, 2014.

- ***Through establishing a multi-layer customer service system and offering scenario-based consumption financial services, we have successfully expanded our retail banking business.***

As the only city commercial bank directly administered by provincial government in Henan Province, we captured historical opportunities in enhancing our leading market position in local market. Capitalizing on our business network covering entire Henan Province, we are committed to becoming the “Citizens’ Bank (市民銀行)” in Henan Province. According to the PBoC, we ranked 2<sup>nd</sup> among all commercial banks in Henan Province in 2016 in terms of market share growth of personal loans from 2015 to 2016. In addition, we invested in market research on different customer groups to develop products with tailor-made specifications, resulting in a strong sales increase. According to CBRC Henan Office, we ranked first among all commercial banks in Henan Province in terms of sale volume of wealth management products issued by us for the year ended December 31, 2016, which brings about a strong growth of the number of high- and mid-end customers. Furthermore, we offer a broad range of agency services, including both household fees services such as utility, communication and cable TV, bancassurance, and agency trading of precious metals.

In order to expand our retail banking business, we established a multi-layer customer service system comprising branches, wealth management center and online channels. In order to promote customer loyalty and our profitability, we, through internal coordination among various teams from different departments, develop products that can effectively meet customers’ consumption needs in daily life including real estate, automobile, education, medical and public transportation, which could be accessed through online and offline terminals. In particular, we consider financial services based on internet technology, a key to our future success, and invested in product innovation to build up a retail banking products portfolio that could meet different online payment, investment and financing needs, including “Yong Xu Dai (永續貸)” and “Miao Dai (秒貸)”. As a result, we have successfully improved the efficiency of client engagement and our competitiveness.

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- *Through penetrating into rural markets, we established new profit growth for rural financial services.*

According to the PBoC, as of December 31, 2016, the amount of personal deposits from county level or below accounted for approximately 55.9% of the total personal deposits in Henan Province, demonstrating strong potential growth in market demand for quality financial services in the corresponding area. As a part of our strategy of “Internetization and Ruralization of Banking Services (上網下鄉)”, we streamlined our management structure in relation to rural finance business and invested in developing and marketing featured rural financial products and services, to capture business opportunities arising from various strategic policies and plans issued by Henan Government in encouraging the development of financial services in relation to modern agriculture and rural infrastructure. To further penetrate our business into rural areas, improve market recognition of our brand and customer loyalty, we began to set up convenience service stations in August 2016, strategically placing our point of sales into locations where there used to be no convenient access to basic financial services necessary for daily life. As of December 31, 2016, we had 806 convenience service stations covering 17 cities and 82 counties in Henan Province. As of the Latest Practicable Date, our rural financial service network comprised county-level and township-level sub-branches and convenience service stations, complemented with our village and township banks, which, taken together, constituted a comprehensive rural financial service system.

We continuously launched financial products to meet specific demands of rural residents. As of December 31, 2016, we had issued approximately a total number of 64,011 “Zhongyuan Bank Farmers-Benefiting Card (中原銀行惠農卡)”. In February 2017, we entered into a cooperation agreement with Bangladesh’s Grameen Bank, pursuant to which we planned to utilize Grameen Bank’s successful experience in offering microcredit business to further expand our inclusive finance operations in rural area with a view to further expand our sustainable micro loan business.

**By offering diversified products, we have successfully achieved rapid expansion of financial markets business and improved our profitability.**

To successfully deal with challenges arising from interest rate liberalization, the “New Normal” phase that China has entered into and the increased demands from customers for comprehensive financial products and services, we took advantage of our long-term sound relationship with other financial institutions to offer more diversified products and services and seek continuous profit growth including investments in debt securities and interbank assets, structured finance as well as issuance of wealth management products. As of December 31, 2016, our investments in debt securities and Non-standard Credit Assets amounted to RMB182,972.1 million, increased from RMB36,588.8 million as of December 31, 2014, representing a CAGR of 123.6% from 2014 to 2016. The amount of wealth management products issued by us for the year ended December 31, 2016 increased to RMB75,612.2 million from RMB12,561.9 million for the year ended December 31, 2014, representing a CAGR of 145.3% from 2014 to 2016.

Since our establishment, we strived to develop financial markets business by utilizing our leading market position as the only city commercial bank directly administered by provincial government in Henan Province, and have obtained licenses to conduct interbank borrowings, gold transactions, fund sales and bancassurance. We became a primary member bank of the self-regulated interest rate pricing association and membership bank of Shanghai Bills Exchange (上海票據交易所). In February 2016, we became a member of the underwriting syndicates of financial debt securities issued by three policy banks, namely China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China. In recognition of our outstanding performance in interbank domestic currency market, we were granted “The Best City Commercial Bank Award in terms of Interbank Domestic Currency Market (銀行間本幣市場最佳城市商業銀行獎)” in 2015 and “The Outstanding Dealer in terms of Interbank Domestic Currency Market (銀行間本幣市場優異交易商)”

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in 2016 by China Foreign Exchange Trading System & National Inter-bank Funding Center. During the Track Record Period, we have successfully promoted our “Heyday Fortune (鼎盛財富)” series wealth management products into a well-known brand name in Henan Province. In November 2016, we were one of the first banks in Henan Province to launch “T+0” open-end wealth management products, which has successfully satisfied relevant market demands. According to “Ranking of Personal Wealth Management Capacity of PRC Bank (2016)” issued by PY Standard (普益標準), a leading financial data analysis company in China, we ranked first in all city commercial banks in Henan Province in terms of personal wealth management service capacity.

**We have successfully improved and maintained good asset quality through our prudent risk management system with comprehensive enforcement.**

Capitalizing on our prudent risk management system and proactive implementation of risk management measures, we have managed to effectively improve and maintain our asset quality during the Track Record Period. Since the establishment of our Bank, we systematically consolidated respective risk management systems in each of the Thirteen City Commercial Banks, and migrated their key data into our new system. We have successfully established an vertical integrated risk management and internal control systems covering the entire Bank. Our prudent risk management can be demonstrated in the following respects:

- We have introduced a risk management structure that clearly delineates responsibilities of different positions and departments while ensuring effective check-and-balance mechanism. The top-down supervision and management structure also allows our headquarter to effectively control our branches and sub-branches. Our bank-wide risks are under the centralized management of the Risk Management Department at our head office, supported by various functional departments, each taking charge of one aspect of work in relation to the risk management. Similar structures have been established at branches, so that corresponding departments could work together under centralized management to implement daily work which is strictly in accordance with the standards set forth in our head office.
- Our head office dispatches chief risk officers to our branches, who oversee risk management work at each of the branches and are not permitted to manage any business department. They are required to report to directly the Chief Risk Officer at our head office, and are working under supervision of our head office in relation to quality and results of their work, so that we could effectively ensure independence of our vertical risk management system while making timely solutions of relevant risks. We also established mandatory rotation policies for chief risk officers to mitigate risks associated with conflict of interest and implemented specialized evaluation system on these positions, through which, we cultivated a team of experts with abundant experience and professional skills to improve our risk management work.
- We actively introduce advanced technologies in order to improve the efficiency and effectiveness of our risk management in light of challenges brought up by clients being increasingly inclined to use Internet-based financial products and services. By utilizing big-data technologies, we have successfully improved efficiency and accuracy of our pre-loan investigation, approval and post-loan disbursement management work, resulting in optimized client experience in our financial products and services and thus enhance our competitiveness over our industry peers.

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In addition, we endeavor to deal with risks associated with business undertaken by the Thirteen City Commercial Banks prior to the Reorganization and have continuously improved our asset quality during the Track Record Period. We strived to optimize loan portfolios by focusing on our development of industries relating to modern services, new information technology, modern agriculture and transportation and limit our credit exposure to high-risk sectors such as steel, cement, flat glass, electrolytic aluminum and photovoltaic. By virtue of our prudent risk management system, we have successfully improved our asset quality while rapidly expanding our business since establishment of our Bank. As of December 31, 2014, 2015 and 2016, our total loans to customers increased from RMB111,132.8 million to RMB139,599.5 million and further increased to RMB164,888.5 million, while our NPL ratio amounted to 1.92%, 1.95% and 1.86%, respectively, as of the same dates. Our NPL ratio as of December 31, 2014, 2015 and 2016 was higher than the industry average as of the same dates mainly because during the Reorganization we inherited from the Thirteen City Commercial Banks certain assets and customers of unsatisfying quality. After the Reorganization, the Bank has continuously made efforts to recover existing non-performing loans, strengthen risk management measures, and develop quality customers with good credit records. However, the decrease in the non-performing corporate loan ratio was offset by higher non-performing personal loan ratio as a result of deteriorated financial condition and repayment abilities of certain individual business during the slowdown of the PRC economy. As of December 31, 2014, 2015 and 2016, our allowance coverage ratio amounted to 219.32%, 210.48%, 207.09%, respectively, while our allowance to loan ratio was 4.21%, 4.10% and 3.85%, respectively, as of the same dates.

### OUR DEVELOPMENT STRATEGIES

Our vision is to become a leading commercial bank in China. In line with our development strategies of “offering featured products in traditional banking business, accomplishing break-through by innovation and taking first-mover advantage in developing future business (傳統業務作特色, 創新業務找突破, 未來業務求領先)”, we intend to further enhance our risk management and internal control systems, and continue to develop efficient, convenient and innovative financial services that cater to different customers’ needs while keep on expanding the scope of our products and services, so that we can further enhance and promote market recognition of our brand name.

We plan to realize this vision through implementing the following measures:

**In line with our strategy of “rooted in Henan with country-wide radiation (深耕河南，輻射全國)”, we intend to further enhance our leading market position in Henan Province while observing opportunities to expand our business scope.**

Leveraging historical opportunity and the expected further development of Henan Province’s economy as a result of multiple favorable policies, including the core national strategies, such as “Henan Grain Production Core Region (河南糧食生產核心區)”, “Central Plains Economic Zone (中原經濟區)”, “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合試驗區)” and “China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)”, we intend to enhance our leading market position in this region by taking advantage of the development trend of local economy. In particular, we plan to:

- improve profitability through enhancing services for industries of strong growth potential based on studies on global and regional economy, including modern agriculture, healthcare and logistics. For instance, we intend to (i) establish a rural finance supply chain where we can offer tailor-made products based on customers’ specific needs at different stages of production cycle including various market players in the agriculture sector; (ii) take advantage of the national healthcare development strategies and medical service system reform, to develop financial services designed to meet specific demands of healthcare industry and strengthen the cooperative relationship with hospitals, pharmaceutical

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enterprises and geracomium and extended care institutions. We also intend to launch different types of products and services that cater to medical industry with a focus on large public hospitals in Henan Province; (iii) further develop services for logistics and transportation industry to capture opportunities arising from expected strong growth of these sectors as Henan Province plays an ever increasingly important role in “One Belt, One Road (一帶一路)” national initiative;

- optimize the layout of our business network and capitalize on our existing network coverage, thereby we could vigorously improve the function of our sales and marketing channel as well as achieve efficient management of and supervision over different outlets, so that we can enhance our competitiveness in the existing market while expanding into new regions. We plan to (i) establish a distribution network with clear delineation of city and county areas, where we will optimize the layout of business channel comprising branches and outlets of different administration levels; and (ii) promote integration of online and offline sales channels to enhance client experience and create different scenes focusing on specific needs of different target customer groups, so as to standardize management of our outlets and thus improve our profitability.

**In line with our strategy of “offering featured products in traditional banking business (傳統業務做特色)”, we intend to build a well-recognized brand name associated with quality products and services**

By further enhancing competitiveness of different business arms and taking active measures to improve cost-efficiency and profitability, we could make our brand name well-recognized in the market.

- For corporate banking, (i) we intend to make full use of our unique advantage as the only city commercial bank directly administered by provincial government in Henan Province and our long-term cooperative relationship with the local government that can be traced back to the businesses undertaken by the Thirteen City Commercial Banks before our establishment. We plan to actively strengthen our business cooperation with government agencies and their subordinate enterprises and institutions, through obtaining agent qualifications to conduct various public projects, including developing collection and settlement systems in relation to fiscal and social security funds, and participating in government infrastructure projects or debt securities underwriting; (ii) we intend to further deepen our business relationship with different enterprises to better explore and capture business opportunities. In respect of large enterprises, we will focus on offering products tailored to each enterprise’s specific demand. For medium and small enterprises, our focus is delivering standardized and/or innovative online products and services. Industry wise, we intend to look into enterprises with operations in line with pillar industries in Henan Province or with strategic importance to PRC economy, such as modern agriculture, healthcare, education, real estate, tourism, science and technology information and (iii) we will continue to develop and promote a variety of business systems in order to improve our information technology capabilities, streamline business processes, enhance customer loyalty and optimize the income structure. We plan to continue to develop and promote our online bill payment platform, “e Travel” WeChat platform, supply chain finance system, the use of big-data technology to develop small micro-business’s online business system. Through the above measures, we are dedicated to building our reputation as a bank capable of offering comprehensive financial solutions for different industries.



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- For retail banking, we intend to (i) provide tailor-made products and services designed to meet specific need of each of the four different customer groups that we have categorized based on various criteria in order to enhance customer loyalty and improve profitability. For details on these four categories, namely, ordinary customers, valuable customers, wealth customers and private banking customers, please see “— Retail Banking Business — Retail Banking Customer Base”; (ii) continue exploring potential market demand for our retail banking business and improve brand-recognition among our high- and mid-end customers, so that we can further improve profitability; (iii) take advantage of our leading market position in personal loan products, such as “Yong Xu Dai (永續貸)”, “Miao Dai (秒貸)” and automobile loans so as to further increase our market share; and (iv) continue upgrading the core technology utilized by “Yong Xu Dai (永續貸)” to enhance market awareness of this series and in the same time improving our customer loyalty.
- For rural financial services, we intend to further optimize distribution network and organization structure, in line with our strategy of “Internetization and Ruralization of Banking Services (上網下鄉)”. We plan to expand both online channels and offline outlets to build a three-layer business network structure by laying outlets in counties, placing self-service banking facilities in townships, building convenience service stations in villages. Through introducing innovative products and services, we aim to continuously enhance our competitiveness and market influence in rural areas.
- For financial markets business, we intend to optimize our investment portfolio in debts, bills and equity assets, improve our research and trading capabilities with a focus on debt related business featured in active market presence, strong influence and well-recognized brand name.

**In line with our strategy of “accomplishing break-through by innovation (創新業務找突破)”, we intend to develop comprehensive financial products and services to meet demands of specific target customer groups, so as to improve our profitability.**

We intend to promote our brand as a transaction bank capable of offering comprehensive financial services. We will focus on developing businesses that could effectively integrate with ease into services under corporate banking, investment banking and financial markets business so as to enable us to explore different innovative business models permitted by PRC laws and regulations.

Following our marketing strategy and customer base that accord with Henan Province’s economy, we intend to vigorously promote the development of our investment banking and transaction banking business, so that, we could (i) propel the further development of our business through capturing financing and settlement demands of clients and delivering comprehensive services featured in “transaction banking + investment banking + internet (交易銀行+投資銀行+互聯網)”; (ii) improve and , in the meantime, benefit from integrated growth of real economy and financial industry, as well as (iii) continuously enhance the quality of our foreign exchange business for PRC enterprises seeking overseas opportunities. While focusing on providing fiscal services that we believe to be the key driving force to develop corporate banking business, we plan to undertake “Internet + Innovative Electronic Products (互聯網 + 創新電子化產品)” service model, place corporate banking business online, and further improve our capabilities in serving institutional customers so as to secure a stable source of deposits.

We further intend to enhance our multi-layer operation system serving corporate clients, by optimizing organization structure, complementing service portfolio, improving product innovation and promoting “supply side reform (供給側改革)” in relation to our product development. We will focus on identifying clients’ demands, making timely solution to problems our clients may encounter and improving client satisfaction. We intend to position ourselves as a bank capable of offering large and

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medium enterprise customers with innovative financial products featuring investment banking and transaction banking business, while offering small clients with tailor-made and online services. We also intend to develop asset-light corporate banking business model to actively deal with challenges from interest rate marketization, financial disintermediation and internet finance. In addition, we plan to promote product innovation, further expand precious metal, foreign exchange and derivative businesses. We also intend to actively expand our product portfolio of interbank business and asset management business. We intend to leverage product innovation in order to penetrate into new market and enhance new profit source.

**In line with our strategy of “taking first-mover advantage in developing future business (未來業務求領先)”, we intend to further strengthen our IT capabilities to be better positioned as a “Bank of Future (未來銀行)” in dealing with future challenges.**

We plan to transform our Bank into a “smart bank (智慧銀行)” where we can rely on advanced technologies, particularly big-data and cloud computing technologies to improve cost-efficiency of our business operations. We intend to enhance our technological capabilities in internet finance, in particular, to (i) effectively utilize big-data technology to enhance our capacity in designing and offering tailor-made financial products for target customers; (ii) establish technology management system emphasizing on efficiency and innovation to seamlessly implant advanced technologies into our daily management; (iii) further develop our online channels, construct service platforms for product portfolios and actively engage third party technology companies to improve client experience; (iv) continue investing in big-data utilization to improve precision marketing, risk management and business operations; use cloud computing technology to optimize allocation flexibility and cost-efficiency of IT resources; advance biometrics authentication technologies to improve our risk management capability, business operation efficiency and client experience; (v) enhance security of information and improve IT risk management system; (vi) deepen our cooperation with financial institutions to explore innovative offline and online business model that could satisfy requirements from both asset and liability sides, so that we could be well-positioned to take leading positions in the future.

We also intend to improve the way we delineate responsibilities among business departments and the information technology department during the products development, so that we can better streamline the process, enhance evaluation mechanism and improve upgrading progress. We will implement delicate information technology financial management and assist our information technology department to more accurately set a direction for our systems progression. In terms of product launch, we plan to strategically focus on the mobile finance and online supply chain finance business. To become a “Citizens’ Bank”, we will emphasize on launching more products and services that meet our customers’ needs in settlement and wealth management.

**Strengthen and improve corporate governance, and optimize organizational structure with market-oriented philosophy.**

We will keep investing in establishing a modern commercial bank governance structure to ensure smooth implementation of our development strategies. In line with our business concept of being customer-oriented, we intend to further improve our flat management structure, vertical supervision system and professional ethics in delivering services. In this way, we aim to enhance our structure which consists of front offices offering comprehensive products, middle offices strictly supervising quality and risk management measures and back offices serving effective and capable supporting roles. We intend to optimize allocation of responsibilities across all levels, emphasizing vertical

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management and efficient process. In particular, we will improve the head office's capacity in decision making, managing and monitoring operations of our branches and sub-branches, and thus improving overall management and execution efficiency.

Guided by our strategy of “Talents Bloom the Bank (人才興行)”, we plan to adhere to the “people-oriented, performance-oriented (以人為本，業績導向)” concept in building a human resources management mechanism so that we are more capable of mobilizing and motivating talents' potential. In determining remuneration, we intend to keep emphasizing performance-oriented concept, so that we can retain and recruit competent talents.

### Continuously enhance the risk control system to improve asset quality.

We plan to keep upgrading our risk management system and our related policies to ensure quick identification of risks and proper assessment of provisions that correlate with our business nature, scope, complexity and risk tolerance preference. In addition, we manage to meet the regulatory requirements, properly cover major risk categories, and guarantee continuity, stability and adaptability of our risk management system. We intend to utilize advanced technologies to improve our capacity for identifying, monitoring, reporting and mitigating risks associated with our daily operations and banking industry as a whole. We will actively cultivate our compliance culture, adhere to the management ideas of stable operation, and strictly comply with laws so that our employees are mindful of ensuring the Bank's compliance with regulation requirements, strictly abiding by professional ethics and properly executing our internal policies.

### OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal lines of businesses include corporate banking, retail banking, and our financial markets business. The following table sets forth our operating income by segments for the periods indicated.

	For the year ended December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Corporate banking.....	6,266.6	65.8%	6,625.8	60.0%	7,261.1	61.5%
Retail banking.....	2,021.1	21.2%	2,538.4	23.0%	2,768.0	23.5%
Financial markets business <sup>(1)</sup> .....	1,076.3	11.3%	1,668.6	15.1%	1,563.6	13.2%
Others <sup>(2)</sup> .....	156.0	1.7%	217.5	1.9%	211.0	1.8%
<b>Total<sup>(3)</sup> .....</b>	<b>9,520.0</b>	<b>100.0%</b>	<b>11,050.3</b>	<b>100.0%</b>	<b>11,803.7</b>	<b>100.0%</b>

Notes:

- (1) Consists primarily of money market transactions, investment business, wealth management, debt securities underwriting and distribution, and bill discounting and rediscounting.
- (2) Consists primarily of income that is not directly attributable to any specific segment.
- (3) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net trading gains/(losses), net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business. As a result, the operating income set forth in this table is different from the income from our investment business set forth in the tables on page 198 of this prospectus.

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### Corporate Banking

#### Overview

We offer corporate banking customers a broad array of products and services to support their business needs, including corporate loans, corporate deposits, discounted bills, transaction banking services, investment banking services and other fee- and commission-based products and services. Our corporate banking customers primarily include government agencies and public institutions, state-owned enterprises, private enterprises, and foreign-invested enterprises. Corporate banking is one of our main sources of operating income and operating profit. Our corporate banking business has grown steadily in recent years. For the years ended December 31, 2014, 2015, and 2016, operating income from our corporate banking business was RMB6,266.6 million, RMB6,625.8 million and RMB7,261.1 million, respectively, accounting for 65.8%, 60.0% and 61.5% of our total operating income, respectively. As of December 31, 2016, we had 8,314 corporate loan customers with total corporate loans of RMB110,633.0 million and 159,131 corporate deposit customers with total deposits of RMB141,832.9 million. Our corporate loans increased from RMB71,329.8 million as of December 31, 2014, to RMB110,633.0 million as of December 31, 2016. Our corporate deposits increased significantly from RMB82,900.5 million as of December 31, 2014 to RMB141,832.9 million as of December 31, 2016.

#### Corporate Loans

The majority of our corporate loan customers are enterprises incorporated or otherwise have their primary operations in Henan Province. Corporate loans have been the largest component of our loan portfolio during the Track Record Period, most of which are RMB-denominated loans. As of December 31, 2014, 2015 and 2016, our corporate loans amounted to RMB71,329.8 million, RMB99,261.4 million, and RMB110,633.0 million, respectively, accounting for 64.2%, 71.1% and 67.1%, respectively, of our total loans to customers as of the same dates.

#### Distribution of Corporate Loans by Product Type

We provide our corporate banking customers with a variety of loan products, including working capital loans, fixed asset loans and trade finance loans. The following table sets forth our corporate loans by product type as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Working capital loans .....	64,394.0	90.3%	86,709.4	87.4%	96,416.0	87.1%
Fixed asset loans .....	6,483.1	9.1%	10,830.1	10.9%	13,032.3	11.8%
Trade finance loans .....	—	—	10.0	—	219.7	0.2%
Others <sup>(1)</sup> .....	452.7	0.6%	1,711.9	1.7%	965.0	0.9%
<b>Total corporate loans .....</b>	<b><u>71,329.8</u></b>	<b><u>100.0%</u></b>	<b><u>99,261.4</u></b>	<b><u>100.0%</u></b>	<b><u>110,633.0</u></b>	<b><u>100.0%</u></b>

Note:

(1) Consist primarily of advances under bank acceptances.

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### *Distribution of Corporate Loans by Maturity*

In terms of loan maturity, our corporate loans comprise short-term loans and advances, medium- and long-term loans. The following table sets forth our corporate loans by maturity as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans and advances <sup>(1)</sup> .....	61,145.2	85.7%	81,210.3	81.8%	87,314.3	78.9%
Medium- and long-term loans <sup>(2)</sup> .....	10,184.6	14.3%	18,051.1	18.2%	23,318.7	21.1%
<b>Total corporate loans</b> .....	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

*Notes:*

- (1) Consist of loans with maturity of one year or less and advances.  
(2) Consist of loans with maturity of more than one year.

### Short-term Loans and Advances

Under the General Rules of Loans of the PBoC, short-term loans are loans with maturity of one year or less. As of December 31, 2014, 2015 and 2016, our short-term loans and advances were RMB61,145.2 million, RMB81,210.3 million and RMB87,314.3 million, respectively, accounting for 85.7%, 81.8%, and 78.9%, respectively, of our total corporate loans as of the same dates.

### Medium- and Long-term Loans

Under the General Rules of Loans of the PBoC, medium- and long-term loans are loans which mature in more than one year. As of December 31, 2014, 2015 and 2016, our medium- and long-term loans were RMB10,184.6 million, RMB18,051.1 million and RMB23,318.7 million, respectively, accounting for 14.3%, 18.2%, and 21.1%, respectively, of our total corporate loans as of the same dates.

### *Distribution of Corporate Loans by Customer Types*

We provide differentiated loan products and services to our loan customers of various categories and sizes. Our corporate loan customers primarily include state-owned enterprises and privately-owned enterprises, engaging in a broad range of industries primarily including manufacturing, wholesale and retail, real estate, construction, as well as leasing and business services. For details of the distribution of our corporate loans by industry categories, please see “Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Corporate Loans by Industry.”

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The following table sets forth our corporate loans by size of corporate banking customers as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Large enterprises <sup>(1)</sup> .....	1,996.7	2.8%	7,845.0	7.9%	12,242.8	11.1%
Medium enterprises <sup>(1)</sup> .....	23,531.8	33.0%	24,841.4	25.0%	18,082.3	16.3%
Small and micro enterprises <sup>(1)</sup> .....	43,299.2	60.7%	61,448.2	61.9%	74,745.2	67.6%
Others <sup>(2)</sup> .....	2,502.1	3.5%	5,126.8	5.2%	5,562.7	5.0%
<b>Total corporate loans</b> .....	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

Notes:

- (1) The classification criteria for large, medium, small and micro enterprises are based on the number of their employees, operating income and total assets stated in the Classification Standards of Small and Medium Enterprises. Please see “Definitions”.
- (2) Primarily includes loans to public institutions, such as hospitals and schools.

### Loans to Large and Medium Enterprises

Large and medium enterprises are our important customers. We provide comprehensive loan products to assist them in meeting their financial needs, including working capital loans, fixed assets loans and trade finance loans. Our customers include state-owned private enterprises with leading market position in Henan Province, covering a wide range of industries. For details of our large and medium enterprise customers, please also see “— Corporate Banking Customer Base”.

As of December 31, 2014, 2015 and 2016, our loans to large and medium enterprises amounted to RMB25,528.5 million, RMB32,686.4 million, and RMB30,325.1 million, respectively, accounting for 35.8%, 32.9% and 27.4%, respectively, of our total corporate loans as of the same dates.

### Loans to Small and Micro Enterprises

Aiming to better serve our small and micro enterprise customers and to develop our financial services brand, we are committed to offering professional, tailor-made and efficient financing solutions and services to meet their financing needs. During the Track Record Period, our small and micro enterprise loan customers were engaged in a wide range of industries, primarily including manufacturing, wholesale and retail, services and education. As of December 31, 2014, 2015 and 2016, our loans to small and micro enterprises amounted to RMB43,299.2 million, RMB61,448.2 million and RMB74,745.2 million, respectively, accounting for 60.7%, 61.9% and 67.6% of our total corporate loans, respectively, as of the same dates.

Leveraging our deep understanding of the local economy and local market trends in Henan Province, we have successfully launched a number of products and services with innovative features that had strong market reception. For instance, our “Tea Aroma (茶香融)” joint-guaranteed loan was developed to target tea wholesalers in Xinyang, a city in southeastern Henan Province, where tea production accounts for a significant part of local economy. To cater to local tea wholesalers’ financing needs, the micro loans department in our Xinyang branch cooperated with an industry association, through which about 100 tea wholesalers with sound credit history were selected to whom

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we granted loans. In addition, these tea wholesalers formed multiple joint-guaranteed groups, in which each individual borrowers will be jointly and severally liable for whole credit limit of entitle group. To further mitigate the risk, borrowers are required to buy insurance and appoint our Xinyang branch as the first beneficiary. The maximum loan amount we can grant is RMB3.0 million with maturities ranging from three months to one year. This loan product was awarded the “Top Ten Outstanding Innovative Loan Products to Small and Micro Enterprises in 2013” (服務小微企業及三農貸款“十佳金融創新產品”) by the Henan Province Banking Association. As of December 31, 2016, the total amount of loans under this “Tea Aroma (茶香融)” category was RMB25.2 million.

### *Bill Discounting*

Bill discounting refers to our purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of one year or less at a discount from our corporate banking customers. Bill discounting provides short-term financing to our corporate banking customers. As of December 31, 2014, 2015, and 2016, our discounted bills amounted to RMB15,587.6 million, RMB11,965.0 million and RMB9,595.7 million, respectively, accounting for 14.0%, 8.6% and 5.8%, respectively, of our total loans to customers as of the same dates.

### *Corporate Deposits*

We offer our corporate banking customers time and demand deposits in RMB and major foreign currencies, including USD, HK dollar, British Pound, and Euro. We provide RMB-denominated time deposits with maturities ranging from one month to five years to our corporate banking customers. We offer deposits products with different terms on interests rate and tenor to capture the demands of various target customer groups. The table below sets forth our corporate deposits by product type as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Demand deposits.....	53,282.0	64.3%	66,857.0	58.5%	96,176.0	67.8%
Time deposits.....	29,618.5	35.7%	47,437.7	41.5%	45,656.9	32.2%
<b>Total corporate deposits.....</b>	<b>82,900.5</b>	<b>100.0%</b>	<b>114,294.7</b>	<b>100.0%</b>	<b>141,832.9</b>	<b>100.0%</b>

Our corporate deposit customers primarily include fiscal and government agencies, public institutions, state-owned enterprises, private enterprises and foreign-invested enterprises. As of December 31, 2014, 2015 and 2016, the number of our corporate deposit customers were 118,661, 145,228, and 159,131, respectively, with total corporate deposits amounting to RMB82,900.5 million, RMB114,294.7 million and RMB141,832.9 million, respectively, accounting for 50.4%, 55.7%, and 57.8% of our total deposits from customers, respectively, as of the same dates.

### *Transaction Banking*

In managing our transaction banking business, we offer cash management services, supply chain finance services, trade finance services and settlement services. We consider these services as our key competitive edges, which we believe allow us to leverage our broad geographic coverage, advanced technology capacities and long-term relationship with strategic customers to capture business opportunities from the dynamic economic development in Henan Province as well as in PRC.

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### *Cash Management Services*

We provide integrated cash management services to our corporate banking customers to assist them in managing their cash flows, including account management, collection and payment management, liquidity management, bills management, and investment and financing services. We believe that our cash management services are able to assist our corporate banking customers to reduce their financial costs, increase capital gains, optimize the structure of assets and liabilities, and achieve a balance between liquidity and profitability. We had already provided cash management services to large enterprise, government departments and public institutions. As of December 31, 2016, we had 241 cash management customers. For the year ended December 31, 2016, the total transaction volume amounted to RMB184,053.3 million.

In February 2017, we established “Bills Pool” where we place bill instruments of relevant customers into a “pool”, so as to generate credit or financing limits for such customers and provide comprehensive financial services, including bill information queries, entrusted collection of payment and bills pledge and credit extension, through which our corporate banking customers are able to improve their bills management, lower their financing costs, increase their assets liquidity and mitigate bills management-related risks. We believe that by providing this service, we are able to attract corporate banking customers to utilize our system to manage their cash flow and increase their reliance on our services, particularly those large corporate banking customers who demand constant or large volume of bill settlement services.

### *Supply Chain Finance*

We also provide supply chain finance to the upstream suppliers and downstream customers of our core enterprise customers so as to meet their financing needs. We have developed a customer-centric products and services system to better meet their various financing needs, which consists of accounts receivables financing (such as order financing, domestic factoring, loans pledged by receivables and lease factoring) as well as prepayment financing. In September 2016, to better enhance user experience, we started to offer supply chain financing services online, which enables our customers to conveniently access our services.

### *Trade Finance*

We started our trade finance business in 2015. We provide trade finance services to customers engaging in both domestic and international trading. To better facilitate trading activities for our corporate banking customers, we group our trade finance products into four categories, each of which is designed to address specific demands that may arise from different stages of a transaction, details of which are set forth below:

	<b>Categories</b>	<b>Products</b>
(i)	Financial products and services designed for export trading	Export bill advance under letters of credit, export discounting under letters of credit, forfeiting and export bill advance under documentary collection;
(ii)	Financial products and services designed for import trading	Import letters of credit, import payments, import collection and import bill advance under letters of credit;



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	Categories	Products
(iii)	Financial products and services designed for domestic trading	Financing and non-financing domestic letters of guarantee and domestic letters of credit (including packing loans, buyer's and seller's financing, negotiation and forfeiting);
(iv)	Financial products and services designed for cross-border transactions	Cross-border guarantees, including financing and non-financing cross-border guarantees.

Our trade finance service customers came from a wide range of industries, including nonferrous metals industry, wholesale and retail industry, construction, and food processing industry. The transaction volume of our trade finance services amounted to approximately RMB255.0 million and RMB2,003.6 million, for the years ended December 31, 2015 and 2016, respectively.

### *Settlement Services*

We offer our corporate banking customers both domestic and international settlement services.

- *Domestic settlement.* Our domestic settlement products and services primarily include settlement effected through bank and commercial acceptance, letters of credit, collection and telegraphic transfer.
- *International settlement.* We obtained the qualification to operate international banking business in November 2015 and commenced, and offered our international settlement services in April 2016 for both our corporate and retail banking customers, which primarily include inbound and outbound remittances, export documentary collection, import and export letters of credit. As of December 31, 2016, we had business relationship with a total number of 171 corporate banking customers, and for the year ended December 31, 2016 our international settlement transaction volume amounted to USD91.1 million. As of the Latest Practicable Date, we had established cooperation relationship with 91 overseas banks covering settlement services for major international currencies, including USD, Euro, Japanese Yen, HKD, British Pound, Australian Dollar, Canadian Dollar and Singapore Dollar. In March 2017, we became the exclusive agency bank to offer departure tax refund to overseas visitors in Henan Province.

### *Investment Banking*

During the Track Record Period, we steadily expanded products portfolio of our investment banking business and devoted efforts in the recruiting and training of qualified employees with relevant expertise. Our investment banking services include financial advisory and consulting and structured finance.

### *Financial Advisory and Consulting*

Our financial advisory and consulting services primarily provide high-quality corporate banking customers with enterprise restructuring, mergers and acquisitions, asset securitization, as well as capital and financing operations services. In addition, we also proactively participate in projects of strategic value in terms of product innovation and customer development. For instance, in 2016, we, serving as the custodian bank, participated in the issuance of ABS programs of two well-recognized real estate developers in Henan Province where the securities were backed by property management fee receivables. In one of these two ABS programs, we also served as a financial advisor. Relying on our all-round consulting services in project marketing, intermediary selection, project design, regulatory communication, issuance and sales, we helped the clients improve their capital utilization rate.

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Capitalizing on our well-established relationship with local governments and to further tap into dynamic economic activities across Henan Province, we focus on identifying and capturing business opportunities arising from cooperation with local governments. As of the Latest Practicable Date, we entered into strategic cooperation agreements with different governments covering 17 cities and 10 counties directly administered by Henan Government, which allows us to fully participate in, especially providing professional financial advice and carrying out comprehensive financial services, for local government-led financial projects, including infrastructure construction, industrial restructuring and upgrading, implementation of agriculture modernization, reform and innovation of rural financial service as well as development of small and micro enterprises. We believe that such strategic cooperation exposes us to a broader base of customer group.

### *Structured Finance*

Our investment banking business also provides structured finance services, where we offer entrusted loans and provide financing through investments in debt securities and Non-standard Credit Assets. We have built up stable and long-term cooperative relationship with our structured finance corporate banking customers who are engaged in a wide range of industries, including commerce services, real estate, manufacturing, construction and transportation. For the years ended December 31, 2014, 2015 and 2016, our investment made through structured finance services to our corporate banking customers amounted to RMB20,656.0 million, RMB21,854.8 million and RMB36,539.3 million, respectively. For details, please also see “— Financial Markets Business — Investment Business”.

### *Other Fee- and Commission-Based Corporate Banking Products and Services*

We provide our corporate banking customers with fee- and commission-based products and services, primarily including corporate wealth management services, guarantee services and entrusted loans services.

### *Corporate Wealth Management Services*

We provide differentiated wealth management products with flexible terms and yields based on customers' needs and risk tolerance. Our corporate wealth management products mainly consist of principal protected and non-principal protected products with floating yields. Since August 2015, we started to issue corporate wealth management products under the brand of “Heyday Fortunes (鼎盛财富)”. This series offers both principal protected and non-principal protected products. For the years ended December 31, 2015 and 2016, the total sales volume of wealth management products to corporate banking customers amounted to RMB1,133.0 million and RMB4,896.0 million, respectively. As of December 31, 2016, the balance of our wealth management products sold to corporate banking customers amounted to RMB2,601.0 million. For the year ended December 31, 2016, the expected yield of our corporate wealth management products under the “Heyday Fortunes (鼎盛财富)” series ranged from 2.8% to 4.0%.

### *Guarantee Services*

We provide our corporate banking customers with various non-financing guarantee services, in the form of bid guarantees, contract performance guarantees, prepayment guarantees, quality and maintenance guarantees, within-one-year payment guarantees and other non-financing guarantees.

### *Entrusted Loans*

We extend entrusted loans to borrowers on behalf of our corporate banking customers according to their lending purpose, amount, term, and interest rate. We monitor the loan utilization and assist

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with the collection of loans for our corporate banking customers who, being the principals, assume the default risk of the loans, while we receive agency fees determined based on the entrusted loans amount.

### *Corporate Banking Customer Base*

Our corporate banking customers are mainly from (i) manufacturing industry, (ii) wholesale and retail industry, (iii) construction industry, (iv) real estate industry, and (v) agriculture, forestry, animal husbandry and fisheries. As of December 31, 2016, our loans to customers in these industries accounted for 30.6%, 19.4%, 9.0%, 8.7% and 4.9%, respectively, of our total corporate loans as of the same dates. Please see “Assets and Liabilities — Assets — Loans and Advances to Customers — Corporate Loans — Distribution of Corporate Loans by Industry”. As of December 31, 2016, we had 8,314 corporate loan customers and 159,131 corporate deposits customers.

Large corporate enterprises have been our important strategic customers. We established a Conglomerate Customer Department (集團客戶部) at our head office, which is in charge of marketing, exploring potential business opportunities, and executing customized business solutions for large corporate enterprise customers, particularly those strategic customers that we listed in our “Core Customer List (名單制經營)”. As of the Latest Practicable Date, we have established stable business relationship with a number of leading state-owned and private enterprises in Henan Province.

In addition to our strong relationships with large corporate enterprises, we have also proactively and effectively developed a number of loyal medium enterprises as well as small and micro enterprises to expand our corporate banking customer base. In 2016, we entered into strategic cooperation agreement with Henan Provincial Science and Technology Department and became the first batch of banks to extend “Science and Technology Loans (科技貸)” to medium and small enterprises focusing on technology innovation, which aims to encourage their sustainable growth and long-term expansion. In the same year, we launched the “One Out of A Hundred (百裡挑一計劃)” project, where we selected from a large pool of candidate enterprises, approximately 50 medium and small enterprises or technological innovative-based enterprises with strong potential growth to offer these selected enterprises tailor-made financial services, including granting different types of loan products to meet their specific financing demands, offering financial consultation and other value-added services. We have built up a team which consists of professional advisors and consultants with abundant experience in the relevant industry sectors, through whom, our selected enterprises in the project will be able to keep up with the latest industry trends, adopt suitable business models accordingly and thereby better cope with the ever increasing challenges in their respective industry.

Besides enterprises customers, we established Institutional Customer Department (機構事業部) at our head office in order to strengthen our strategic cooperation with institutional customers, including government agencies, public institutions such as public hospitals and universities.

### **Retail Banking**

#### *Overview*

We provide our retail banking customers with a wide range of products and services, including personal loans, personal deposits, bank cards, and various fee- and commission-based products and services. For the years ended December 31, 2014, 2015, and 2016, operating income from our retail banking business amounted to RMB2,021.1 million, RMB2,538.4 million and RMB2,768.0 million, respectively, accounting for 21.2%, 23.0%, and 23.5%, respectively, of our total operating income for the same periods. For the year ended December 31, 2016, our retail banking incurred loss before tax of RMB49.9 million primarily because we significantly increased the allowance for impairment losses for our personal loans in accordance with our prudent risk management policies. Personal business loans had historically accounted for a significant portion of our total personal loans, which were

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mainly extended to business owners operating in industries sensitive to business cycles fluctuations. The recent slowdown of economic growth in China has resulted in operating difficulties of these personal business owners, which thereby brought about a decrease in credit quality of our related loans and an increase in our allowance for impairment losses correspondingly. However, during the Track Record Period, we had endeavored to optimize the structure of our personal loans to minimize the associated risks, bringing the percentage of our personal business loans to our total personal loans from 62.8% as of December 31, 2014 to 43.6% as of December 31, 2016. Going forward, to further improve performance of our retail banking business, we plan to (i) fully implement our strategy of “Internetization and Ruralization of Banking Services (上網下鄉)”, ensuring our retail services will be more accessible both online and offline to local customers; (ii) continuously optimize the structure of our personal loans, focusing on businesses with low risk and higher level of collaterals or guarantees to avoid associated risks. As of December 31, 2016, we had 139,539 personal loan customers and 8,461,900 personal deposits customers.

Leveraging our local advantages in Henan Province and with business orientation to be a “Citizens’ Bank (市民銀行)”, we strive to provide high quality services to local residents by continuously conducting in-depth study of their daily needs, thereby designing tailor-made financial products accordingly. We are dedicated to building up a multi-layer retail banking service framework, enhancing our capabilities in products innovation and our comprehensive service capabilities, and increasing the loyalty of our retail banking customers.

### *Personal Loans*

We provide our customers with various personal loans, including personal business loans, residential mortgage loans and personal consumption loans. As of December 31, 2014, 2015 and 2016, our personal loans amounted to RMB24,215.4 million, RMB28,373.1 million, and RMB44,659.8 million, respectively, accounting for 21.8%, 20.3%, and 27.1% of our total loans to customers, respectively, as of the same dates.

The following table sets forth information on our personal loans by product type as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Personal business loans .....	15,213.4	62.8%	17,638.3	62.2%	19,460.5	43.6%
Residential mortgage loans .....	4,105.7	17.0%	6,366.1	22.4%	18,878.3	42.3%
Personal consumption loans .....	4,702.7	19.4%	4,155.6	14.6%	6,127.2	13.7%
Others <sup>(1)</sup> .....	193.6	0.8%	213.1	0.8%	193.8	0.4%
<b>Total personal loans .....</b>	<b><u>24,215.4</u></b>	<b><u>100.0%</u></b>	<b><u>28,373.1</u></b>	<b><u>100.0%</u></b>	<b><u>44,659.8</u></b>	<b><u>100.0%</u></b>

*Note:*

(1) Consist primarily of corporate credit cards.

### *Personal Business Loans*

We provide personal business loans to owners of privately- or individually-owned business and other retail banking customers to serve their needs in relation to business operations, including business start-up, working capital replenishment, rental payments, and facilities purchase.

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In line with our strategy to capture the growing market demands for retail banking services in different regions of Henan Province, we have launched a series of personal business loan products under the brand of “Zhong Yuan Micro Loans (中原微貸)”, for example “Xiaohan Micro Loans (峯函微貸)” and “Xiao Wei Shi Dai (小微時貸)”, which we tailor made according to demands of different customer groups. Our micro loans generally have a maximum credit line of RMB1.0 million with a term up to two years. We proactively reach out to micro-loan customers by visiting business owners within close proximity of our outlets. Through such customer-focused approach, we are able to identify customers’ needs more accurately, and thus able to offer tailor-made products to them based on their needs and thereby further solidify our customers’ loyalty in local communities. In addition, in order to capture the market opportunities arising from business operations of newly established enterprises in Henan Province, we offer micro-entrepreneur loans to qualified entrepreneurs and self-employed individuals, where we, according to the relevant agreements, receive guarantees provided by government funds specializing in supporting start-ups and professional third-party guarantee companies established by government agencies.

As of December 31, 2014, 2015 and 2016, our personal business loans amounted to RMB15,213.4 million, RMB17,638.3 million and RMB19,460.5 million, respectively, accounting for 62.8%, 62.2% and 43.6% of our total personal loans, respectively, as of the same dates.

### *Residential Mortgage Loans*

We provide our retail banking customers with residential mortgage loans for their purchase of new and second-hand residential properties. Residential mortgage loans are secured by the underlying real property being purchased by borrowers and can have a term of up to 30 years. Generally, the residential mortgage loan amount will not exceed 80% of the purchase price or appraise value of the property. As of December 31, 2014, 2015 and 2016, residential mortgage loans amounted to RMB4,105.7 million, RMB6,366.1 million and RMB18,878.3 million, respectively, representing 17.0%, 22.4% and 42.3%, of our total personal loans respectively, as of the same dates.

### *Personal Consumption Loans*

We provide personal consumption loans to our retail banking customers for their personal and household consumption needs such as house renovation, education, traveling and purchase of durable consumer goods including automobiles. We believe our competitive edges rest on, among other things, our strong technology capabilities which include our ability to provide customers with convenient and secure access to our services such as our ability to efficiently and accurately screen and analyze the applicants’ credit history. As of December 31, 2014, 2015 and 2016, our personal consumption loans amounted to RMB4,702.7 million, RMB4,155.6 million and RMB6,127.2 million, respectively, representing 19.4%, 14.6% and 13.7% of our total personal loans, respectively, as of the same dates.

In October 2016, we launched “Yong Xu Dai (永續貸)”, a product that allows borrowers to make applications online and, upon approval, to draw down the loans by installments at any time and on a revolving basis during the term of the loan, with a maximum amount up to RMB10.0 million, or no more than 80% of the appraised value of mortgaged real properties, whichever is lower. The loan generally has a term of up to 30 years. When we review received applications, we utilize our advanced information technology system to quickly review and analyze vast amount of data we collect from public and third-party proprietary database to quickly identify qualified candidate for further on-site interview and documentation, covering administrative penalties records, involved litigations and tax payment records of the applicant, as well as appraisal value of the property serving as security. As of December 31, 2016, we had 1,077 “Yong Xu Dai (永續貸)” loan customers with total granted loan amounted to RMB1,056.0 million.

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In recognizing our achievements in terms of products innovation and our capacity to utilize big-data during our development of operation of “Yong Xu Dai (永續貸)”, we were granted “The Outstanding Contribution Award for Product Innovation in Financial Industry (金融行業產品創新突出貢獻獎)” in 2016 by *Financial Computerizing*.

We introduce our “Miao Dai (秒貸)” product in December 2015. This is another innovative internet-based loan product which we had tailor-made for our customers. Its features include efficient approval process and convenient drawdown, where an applicant can complete every step online, from application submission and review, drawdown to repayment. To mitigate relevant risks, we only grant loans to employees of our payroll services customers, including government agencies, public institutions, and large reputable enterprises operating in industries in line with national development strategies. Similar to “Yong Xu Dai (永續貸)”, our customers can make applications online and we can quickly determine the specifications of loans to individual borrowers based on analysis of vast amount of information such as customers’ monthly salaries, transaction records of bank accounts and credit history. Generally, the term of this loan ranges from three months to one year, and the maximum loan amount is up to RMB300,000. As of December 31, 2016, our “Miao Dai (秒貸)” loan product had 633 customers with total loan amount of RMB24.4 million.

We also offer automobile loans to our customers. Our ordinary automobile loan generally has a term up to five years with a maximum amount of RMB3.0 million. It is secured by the automobile purchased by borrowers, and jointly guaranteed by the dealer or the professional guarantee company and the insurance company. In December 2016, we also started to offer syndicated automobile loans to customers through cooperation with a trust company and an auto finance company. We, together with the trust company, provide loans according to pre-agreed proportion, to the relevant borrower. Each loan is secured by the automobile purchased by borrowers, and guaranteed by the auto finance company which also is required to deposit, in our Bank, no less than 1% of the loan amount that we extended. According to such arrangements, we shall receive the loan repayment with priority over the trust company.

### ***Personal Deposits***

We provide retail banking customers with various demand deposit, time deposit and notice deposit products, primarily denominated in RMB and foreign currencies. Our personal time deposits have maturities ranging from three months to five years. In June 2016, we obtained the qualification to issue certificates of deposits. As of December 31, 2014, 2015 and 2016, total personal deposits amounted to RMB81,695.3 million, RMB91,075.7 million and RMB103,519.9 million, respectively, accounting for 49.6%, 44.3% and 42.2% of our total deposits from customers, respectively, as of the same dates. As of December 31, 2014, 2015 and 2016, the total number of our personal deposit customers reached 5.6 million, 6.9 million and 8.5 million, respectively.

### ***Bank Card Services***

#### ***Debit Cards***

We issue various types of debit cards to retail banking customers who have deposit accounts with us. Our debit cards are issued under the brand name of “e World (e通天下)”, through which we offer comprehensive financial services, including cash deposit and withdrawal, money transfer and remittance, payroll services, other fee related payment and wealth management products purchase. In 2015, our “e World (e通天下)” debit card was awarded one of “The Most Distinguishing Bank Card in Zhongyuan of 2015 (2015年度中原最具特色銀行卡)” by Zhongyuan News (中原網, www.zynews.com.cn), one of the news website recognized by the State Council News Office. Currently, our debit cards are classified into four categories, ordinary card, gold card, platinum card

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and diamond card based on customers' daily average financial asset balances in our Bank. Each category allows respective customer group to access different types of services. We believe that by offering differentiated service packages, we could improve our service quality, customer loyalty and our profitability.

To broaden our service coverage and raise our brand awareness, we have established cooperation with various governmental agencies and public institutions. For instance, together with Department of Human Resources and Social Security of Henan Province, we issued "Social Security Card (社會保障卡)", a two-in-one card which in addition to the ordinary functions of debit card, offers the card holders social security services, including social security information enquires, medical and hospital expenses payment, and social insurance premiums payment. As of December 31, 2016, we had issued such cards in a total number of 1.6 million.

As a member of China UnionPay, our debit cards are accepted through the China UnionPay network in China and around the world. As of December 31, 2014, 2015, 2016, the accumulative number of our debit cards which we had issued were 5.2 million, 6.3 million and 8.0 million, respectively, representing a CAGR of 24.0% from 2014 to 2016.

### *Credit Cards*

In November 2016, we obtained the qualification from CBRC Henan Office to issued credit cards. We are planning to develop our credit card business in the future.

### *Fee- and Commission-based Retail Banking Products and Services*

For our retail banking customers, we provide various fee- and commission-based retail banking products and services, primarily including personal wealth management services, fund distribution, bancassurance, agency trading of precious metals, payroll and payment services and settlement services. For the year ended December 31, 2014, our fee- and commission-based retail banking products and services incurred a loss of RMB17.0 million mainly due to our marketing effort in promoting the related products and services in 2014. For the years ended December 31, 2015 and 2016, our net income from fee- and commission-based retail banking products and services amounted to RMB33.2 million and RMB76.8 million, respectively.

### *Personal Wealth Management Services*

We provide our retail banking customers with personal wealth management products and services under the brand of "Heyday Fortunes (鼎盛財富)". This series offers both principal protected and non-principal protected wealth management products with floating yields. To improve accessibility of relevant products, we deliver our personal wealth management products through a variety of channels, including our counters, mobile banking app, WeChat banking, and personal online banking website. In addition, we are committed to reinforcing our service team to better meet our customers' differentiated needs and provide professional advisory services.

During the Track Record Period, our personal wealth management business witnessed a rapid growth. For the years ended December 31, 2014, 2015 and 2016, the sales volume of wealth management products to retail banking customers amounted to RMB12,561.9 million, RMB12,815.3 million and RMB59,631.5 million, respectively, representing a CAGR of 117.9% from 2014 to 2016. As of December 31, 2016, we have a total number of 91,744 personal wealth management customers. For the year ended December 31, 2016, the expected yield of our retail wealth management products ranged from 2.8% to 5.5%. We plan to further diversify our product portfolio by introducing more types of personal wealth management products to cater to potential customers' demands.

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In December 2016, we launched a new brand under the name of “Zhongyuan Wealth Management (中原财富管理)” and established a team in charge of our wealth management center to better serve our mid- and high-end customers.

### *Agency Services*

Our agency services mainly include fund distribution, bancassurance and agency trading of precious metals.

*Fund Distribution.* We obtained the qualification for conducting fund sales business in April 2016. Our customers can subscribe, purchase and redeem fund products over our counters, or through our personal online banking website or mobile banking app. As of December 31, 2016, we had a total number of 992 qualified fund sales personnel in our head office and sub-branches. We also established business relationships with four domestic fund management companies in China and distributed 113 fund products as an agent. For the year ended December 31, 2016, the total transaction volume of fund products we distributed reached RMB214.3 million.

*Bancassurance.* We distribute insurance products as an agent through our cooperation with leading insurance companies. As of December 31, 2016, we had entered into cooperative agreements with 10 insurance companies and provided 148 various types of insurance products as an agent, including health insurance, life insurance, property insurance, automobile insurance, accident insurance and investment insurance. For the year ended December 31, 2016, we had distributed insurance products with a total transaction volume of RMB43.8 million.

*Agency Trading of Precious Metals.* We obtained the qualification to trade domestic precious metals in August 2015. We conduct agency sales of gold and silver coins, gold bullion and handicrafts made in gold and silver for specialized third-party entities. As of December 31, 2016, we had 6,177 precious metals trading customers. For the year ended December 31, 2016, we had distributed a total amount of 1,247 kilograms precious metals with a transaction volume of approximately RMB81.0 million.

### *Payroll and Payment Agency Services*

*Payroll Services.* We provide government agencies, public institutions, including public hospitals and schools, as well as corporations, particularly large group corporations with agency services for their payroll. Besides payroll, we also provide agency services for payment of allowance, government subsidy disbursement, social security, stock dividends, bonuses and service fee. The employees receive their salaries through their personal bank accounts with our Bank, which has become an important source of our mid- and high-end retail banking customers. As of December 31, 2014, 2015 and 2016, we had approximately 0.7 million, 0.9 million and 1.5 million individual payroll service customers, respectively. For the years ended December 31, 2014, 2015 and 2016, the average monthly amount of salaries paid through our payroll services was approximately RMB1,185.4 million, RMB2,046.9 million and RMB2,539.6 million, respectively, as of the same dates.

*Payment Services.* For the convenience of our customers to pay their daily living expenses, we launched “Home Finance (居家金融)” in March 2015, a comprehensive bill payment service that includes payments for utilities such as gas, heating, telephone bills, cable TV fees and property management fees. The above mentioned fees could be paid 24/7 through our personal online banking websites, mobile banking apps, self-service zones, WeChat banking, telephone banking and counters.



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### *Settlement Services*

We offer settlement services to our retail banking customers, including RMB denominated money transfer, remittance and collection and foreign exchange business.

### *Rural Financial Services*

In recent years, Henan Government has implemented various strategic policies and plans to encourage the development of financial services in relation to modern agriculture and rural infrastructure. In February 2017, we entered into a cooperation agreement with Bangladesh's Grameen Bank, pursuant to which we planned to utilize Grameen Bank's successful experience in offering microcredit business to further expand our inclusive finance operations in rural area with a view to further expand our sustainable micro loan business.

### *Internal Management Structure and Rural Financial Service Network*

In October 2016, guided by our strategic initiative of “Internetization and Ruralization of Banking Services (上網下鄉)”, we established the Rural Finance Department (惠農金融部) in our head office, in charge of overall management of bank-wide rural financial services and service channels, structurally supported by corresponding rural finance departments at all our branches and rural account managers in county-level sub-branches, so as to better focus on providing tailor-made services for rural households. The department in head office takes charge of (i) formulating overall development strategies for rural financial services; (ii) strategically planning the layout of convenience service stations; (iii) designing, launching and marketing rural financial products and services to address specific rural customers' daily needs in an innovative way; (iv) analyzing, building and managing marketing channels for delivering rural financial products in a time-efficient way; (v) assessing and evaluating the Bank's overall performance of rural financial business, including the growth of rural market share, the expansion of rural customers group, the implementation of rural financial services and correlated risk control and (vi) carrying out risk management measures for the Bank's rural financial services.

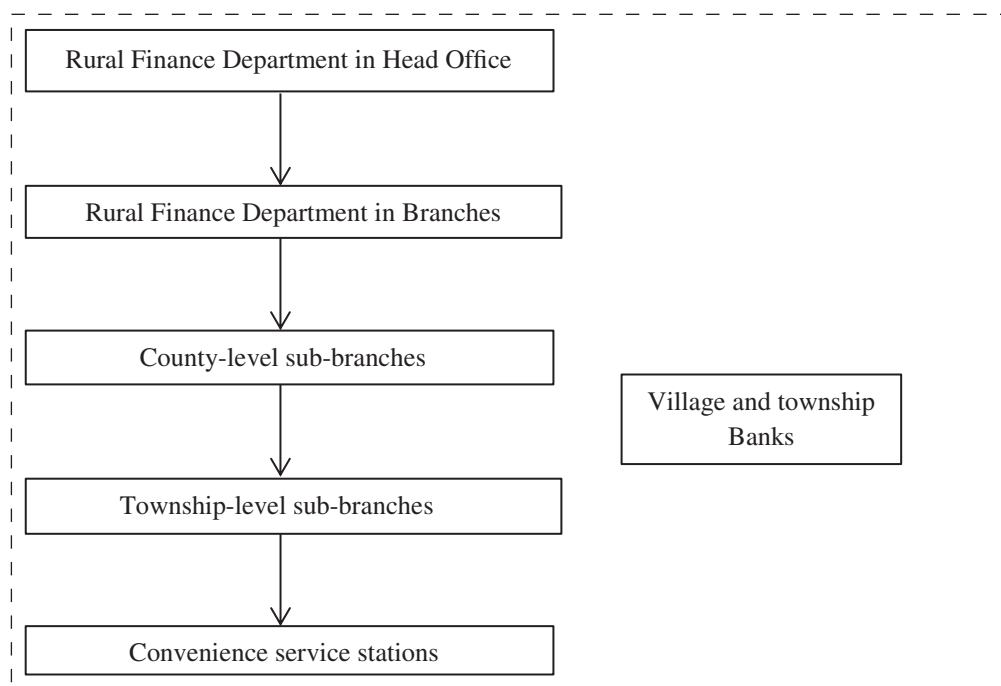
To further penetrate into rural areas, we began to set up convenience service stations in August 2016 by strategically placing point of sales into those regions where there used to be no convenient access to basic financial services necessary for daily life, for example, cash withdrawal, remittance, accounts inquiries, money transfer and utilities bill payments. In each convenience service station, we normally designate one manger to assist rural residents in handling the above-mentioned banking businesses. As of December 31, 2016, we had 806 convenience service stations covering 17 cities and 82 counties in Henan Province. We believe this approach helped us to effectively enhance brand awareness and client loyalty in local regions, considering that Henan Province has an abundant number of migrant workers who have strong demand of high quality financial services which could allow them to transfer money between rural hometowns and big cities where they work. As of the Latest Practicable Date, our rural financial service network comprised our sub-branches at county level, township level and convenience service stations, complemented with our village and township banks. For details of our village and township banks, please see “ — Distribution Network — Village and Township Banks”.

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The chart below sets forth the business network of our bank's rural financial service.



### *Products and Services*

Besides basic banking services we provide at our convenience service stations mentioned above, we have also designed different financial products to meet specific demands of rural residents. For example, we provide “Xing Nong Dai (興農貸)” with a maximum amount of RMB1.0 million with a term up to two years to qualified rural small and micro enterprises owners or owners of individually-owned business with sound credit status and stable income. Correlated risks with this loan were addressed through guarantee offered by governmental risk compensation funds. We launched “Zhongyuan Bank Farmers-Benefiting Card (中原銀行惠農卡)”, a debit card tailor-made for customers in rural areas with discounted fees and charges so as to better cater to rural residents' needs. As of December 31, 2016, we issued approximately a total number of 64,011 “Zhongyuan Bank Farmers-Benefiting Card (中原銀行惠農卡)”.

### *Retail Banking Customer Base*

Capitalizing on the synergy between corporate and retail banking business and our capacity to obtain clients in bulk, we have established an extensive and stable retail banking customer base. As of December 31, 2014, 2015 and 2016, we had 102,351, 97,039 and 139,539 personal loan customers, respectively, and approximately 5.6 million, 6.9 million and 8.5 million personal deposit customers, respectively.

We classify our retail banking customers into four categories based on the balance of their average daily assets balances in our Bank, including ordinary customers (with personal financial assets of less than RMB50,000), valuable customers (with personal financial assets of RMB50,000 (inclusive) to RMB500,000), wealth customers (with personal financial assets of RMB500,000 (inclusive) to RMB6,000,000), and private banking customers (with personal financial assets exceeding RMB6,000,000 (inclusive)). As of December 31, 2014, 2015 and 2016, total assets of our retail banking customers under our management amounted to RMB81,978.8 million, RMB97,787.4 million and RMB121,776.6 million, respectively.

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Strategically, we strive to expand our customer base by continuously introducing advanced information technology into our financial products and services based on ever-changing market demands. Since a growing number of our products and services have been made available online, we consider young customers who are tech-savvy and relatively more willing to take advantage of financial technology the key customer group for our future development. Furthermore, attracting a consistent stream of mid- and high-end customers is of vital importance for us to reinvigorate our cross-selling and grow our overall business. We plan to build up and develop a personalized customer service system for our mid- and high-end individual customers, including civil servants, employees of large enterprises with stable income, private business owners, professionals and other high income individuals to provide them with a more diverse financial services and products, for example, wealth management products, loyalty reward services and other value-added services specifically meet their needs.

### **Financial Markets Business**

#### *Overview*

Our financial markets business primarily includes money market transactions, investment business, wealth management, debt securities underwriting and distribution, and bill discounting and rediscounting. We believe we benefit from operating financial markets business, which allows us to (i) reduce our reliance on the traditional model of providing deposit, loan and remittance services; (ii) make adjustment on asset allocation to achieve profitability while maintaining effective risk management, and (iii) effectively respond to the challenges that the traditional credit business faces, such as interest rate liberalization and narrowing interest spread. For details on our risk management measures in relation to financial markets business, please see “Risk Management — Credit Risk Management — Credit Risk Management for our Financial Markets Business”.

During the Track Record Period, our financial markets business has experienced significant growth. For the years ended December 31, 2014, 2015, 2016, the operating income from our financial markets business were RMB1,076.3 million, RMB1,668.6 million and RMB1,563.6 million, respectively. After the Reorganization, we strengthened our financial markets businesses by establishing various departments, such as the Financial Markets Department, the Interbank Bills Department and the Investment Banking Department, at our head office level. During the Track Record Period, we significantly increased our holdings in PRC government bonds, debt securities issued by PRC policy banks and other financial institutions, and Non-standard Credit Assets to achieve higher liquidity and to reduce our liquidity risk. We also diversify our investments and optimize our investment portfolio based on the market conditions. We believe the significant growth of our financial markets business was in line with our strategy of “offering featured products in traditional business” and the industry trend.

#### *Money Market Transactions*

Our money market transactions primarily consist of: (i) interbank lending and borrowings, primarily include interbank credit extensions, short-term borrowing from and lending to other domestic banks and non-bank financial institutions and interbank deposit services; (ii) interbank placements; and (iii) repurchases and reverse repurchases transactions, primarily including debt securities issued by the PRC government and policy banks, etc.

Our trading capabilities and performance were well recognized in the banking industry. In recognition of our outstanding performance in interbank domestic currency market, we were granted “The Best City Commercial Bank Award in terms of Interbank Domestic Currency Market (銀行間本幣市場最佳城市商業銀行獎)” in 2015 and “The Outstanding Dealer in terms of Interbank Domestic Currency Market (銀行間本幣市場優異交易商)” in 2016 by China Foreign Exchange Trading System & National Inter-bank Funding Center.

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### *Interbank Lending and Borrowings*

As of December 31, 2014, 2015 and 2016, our deposits with banks and other financial institutions was RMB5,159.6 million, RMB5,044.4 million and RMB12,830.5 million, respectively, and our deposits from banks and other financial institutions was RMB5,735.5 million, RMB29,385.8 million and RMB44,954.8 million, respectively.

### *Interbank Placement*

As of December 31, 2014, 2015 and 2016, our placements with banks and other financial institutions was RMB1.7 million, RMB0.8 million and RMB8,700.0 million, respectively, and our placements from banks and other financial institutions was nil, nil and RMB10,400.0 million, respectively.

### *Repurchase and Reverse Repurchase Transactions*

As of December 31, 2014, 2015 and 2016, our financial assets held under resale agreements was RMB8,546.7 million, RMB24,559.4 million and RMB6,573.6 million, respectively, and our financial assets sold under repurchase agreements was RMB2,126.2 million, RMB24,937.6 million and RMB27,580.6 million, respectively.

### *Investment Business*

In managing our investment business, we mainly invest in Standard Investment Products and Non-standard Credit Assets. During the Track Record Period, our investment business experienced significant growth. As of December 31, 2014, 2015 and 2016, our investments in Standard Investment Products and Non-standard Credit Assets amounted to RMB36,588.8 million, RMB88,700.9 million and RMB182,972.1 million, respectively, accounting for 17.7%, 29.0% and 42.2%, respectively, of our total assets, as of the same dates. Among our total investment in Standard Investment Products and Non-standard Credit Assets as of December 31, 2014, 2015 and 2016, RMB20,656.0 million, RMB21,854.8 million and RMB36,539.3 million, respectively, were investments we made through our structured finance business line. Please also see “ — Corporate Banking — Investment Banking — Structured Finance”.

The following table sets forth a breakdown of the total balance of our Standard Investment Products and Non-standard Credit Assets as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Standard Investment Products .....	15,932.8	43.5%	35,322.3	39.8%	73,840.1	40.4%
Non-standard Credit Assets						
Trust plans.....	14,467.5	39.6%	20,871.6	23.5%	27,494.5	15.0%
Asset management plans .....	2,715.2	7.4%	13,787.8	15.6%	35,230.1	19.3%
Wealth management products issued by other PRC						
commercial banks .....	1,720.1	4.7%	18,719.2	21.1%	34,287.7	18.7%
Investment funds and others .....	1,753.2	4.8%	—	—	12,119.7	6.6%
Sub-total.....	20,656.0	56.5%	53,378.6	60.2%	109,132.0	59.6%
<b>Total .....</b>	<b>36,588.8</b>	<b>100.0%</b>	<b>88,700.9</b>	<b>100.0%</b>	<b>182,972.1</b>	<b>100.0%</b>

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The following table sets forth a breakdown of the total balance of our investments in Standard Investment Products and Non-standard Credit Assets as of the dates indicated.

	As of December 31,											
	2014			2015				2016				
	Amount	% of total	% of net assets	% of total assets	Amount	% of total	% of net assets	% of total assets	Amount	% of total	% of net assets	% of total assets
(in millions of RMB, except percentages)												
Standard Investment Products .....	15,932.8	43.5%	56.9%	7.7%	35,322.3	39.8%	105.7%	11.5%	73,840.1	40.4%	208.0%	17.0%
Non-standard Credit Assets..	20,656.0	56.5%	73.7%	10.0%	53,378.6	60.2%	159.7%	17.5%	109,132.0	59.6%	307.4%	25.2%
<b>Total .....</b>	<b>36,588.8</b>	<b>100.0%</b>	<b>130.6%</b>	<b>17.7%</b>	<b>88,700.9</b>	<b>100.0%</b>	<b>265.4%</b>	<b>29.0%</b>	<b>182,972.1</b>	<b>100.0%</b>	<b>515.4%</b>	<b>42.2%</b>

The following table sets forth a breakdown of our income from our investment business for the years indicated.

	For the year ended December 31,		
	2014	2015	2016
	(in millions of RMB)		
Interest income from financial investments <sup>(1)</sup> .....	729.5	1,896.4	3,964.7
Net trading income/(losses) .....	142.7	142.4	(71.7)
Net gains/(losses) from financial investments .....	40.5	(0.6)	9.1
<b>Total .....</b>	<b>912.7</b>	<b>2,038.2</b>	<b>3,902.1</b>

Note:

- (1) Consists of interest income from financial investments that is derived from our financial markets business segment without deducting any interest expenses, not including the interest income derived from structured finance that is classified into our corporate banking segment, which amounted to RMB1,468.5 million, RMB1,403.1 million and RMB2,117.2 million in 2014, 2015 and 2016, respectively, without deducting any interest expenses.

The following table sets forth a breakdown of our interest income from our Standard Investment Products and Non-standard Credit Assets and their respective average rate of return for the years indicated.

	For the year ended December 31,								
	2014			2015			2016		
	Amount	% of total	Average rate of return <sup>(1)</sup>	Amount	% of total	Average rate of return <sup>(1)</sup>	Amount	% of total	Average rate of return <sup>(1)</sup>
(in millions of RMB, except percentages)									
Standard Investment Products .....	729.5	33.2%	4.65%	1,124.3	34.1%	4.59%	1,943.2	32.0%	3.56%
Non-standard Credit Assets <sup>(2)</sup> .....	1,468.5	66.8%	7.36%	2,175.2	65.9%	5.88%	4,138.7	68.0%	5.09%
<b>Total .....</b>	<b>2,198.0</b>	<b>100.0%</b>	<b>6.17%</b>	<b>3,299.5</b>	<b>100.0%</b>	<b>5.36%</b>	<b>6,081.9</b>	<b>100.0%</b>	<b>4.48%</b>

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*Notes:*

- (1) Calculated by dividing (i) our income from the corresponding assets in the year, by (ii) the average balance of these assets at the beginning and the end of the year.
- (2) Consist of interest income from financial investments that is derived from our financial markets business segment without deducting any interest expenses, including the interest income derived from structured finance that is classified into our corporate banking segment, which amounted to RMB1,468.5 million, RMB1,403.1 million and RMB2,117.2 million in 2014, 2015 and 2016, respectively, without deducting any interest expenses.

In 2014, 2015 and 2016, our interest income from financial investments in Non-standard Credit Assets represented 66.8%, 65.9% and 68.0%, respectively, of our total income from our investment business, which remained relatively stable. The average rate of return for our investment in Standard Investment Products was 4.65%, 4.59% and 3.56% in 2014, 2015 and 2016, respectively, while the average rate of return for our investments in Non-standard Credit Assets was 7.36%, 5.88% and 5.09% in the same years. The continued decreases in our average rate of return of our investments were primarily due to (i) the impact of the consecutive interest rate cuts by the PBoC and (ii) market competition after the interest rate liberalization.

*Investments in Standard Investment Products*

Our investments in Standard Investment Products primarily comprise investments in bonds issued by PRC government, and by banks and other financial and non-financial institutions. The table below sets forth the breakdown of our debt securities investments as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
PRC government bonds.....	1,662.9	10.4%	4,630.0	13.1%	19,886.3	26.9%
Debt securities issued by PRC policy banks, commercial banks and other financial institutions....	11,356.8	71.3%	19,503.3	55.2%	45,018.4	61.0%
Debt securities issued by corporate issuers .....	2,913.1	18.3%	11,189.0	31.7%	8,935.4	12.1%
<b>Total.....</b>	<b><u>15,932.8</u></b>	<b><u>100.0%</u></b>	<b><u>35,322.3</u></b>	<b><u>100.0%</u></b>	<b><u>73,840.1</u></b>	<b><u>100.0%</u></b>

As of December 31, 2014, 2015, and 2016, we held debt securities investments with an aggregate carrying amount of RMB15,932.8 million, RMB35,322.3 million and RMB73,840.1 million, respectively. For the years ended December 31, 2014, 2015, and 2016, the interest income generated from our investments in debt securities amounted to RMB729.5 million, RMB1,124.3 million and RMB1,943.2 million, respectively representing a CAGR of 63.2% from 2014 to 2016.

When investing in bonds, we conduct scenario analyses through various analytical tools on market risks such as adverse movement of asset prices and adverse movement of benchmark rates in the market, and formulate corresponding contingency plans and make adjustments to our investment strategies in a timely manner. For details, please see “Risk Management — Market Risk Management — Interest Rate Risk — Interest Rate Risk Management” on how we manage our interest rate exposure of our banking book.

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During the Track Record Period, we also invested in debt securities issued by the PRC local government financing vehicles. As of December 31, 2014, 2015, and 2016, our exposure to investments in debt securities issued by local government financing vehicles amounted to RMB504.1 million, RMB593.0 million, and RMB836.3 million, respectively. Please see “Risk Factors — 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.”

### *Non-standard Credit Assets*

Our investments in Non-standard Credit Assets mainly include investments in trust plans, asset management plans, wealth management products issued by other PRC commercial bank and investment funds.

As of December 31, 2014, 2015 and 2016, our investment in Non-standard Credit Assets amounted to RMB20,656.0 million, RMB53,378.6 million and RMB109,132.0 million, respectively, accounting for 10.0%, 17.5% and 25.2%, respectively, of our total assets as of the same dates. For the years ended December 31, 2014, 2015 and 2016, interest income generated from our investments in Non-standard Credit Assets amounted to RMB1,468.5 million, RMB2,175.2 million and RMB4,138.7 million, respectively, accounting for 11.5%, 14.0% and 24.3%, of our total interest income, respectively, for the same periods, representing a CAGR of 67.9% from 2014 to 2016. For details on results of our investments in Non-standard Credit Assets during the Track Record Period, please see “Assets and Liabilities — Assets — Investment in Debt Securities and Other Financial Assets”.

The table below sets forth the breakdown of income and rates of return of our Non-standard Credit Assets by product type for the periods indicated.

	For the years ended December 31,					
	2014		2015		2016	
	Interest Income	Average Rate of Return <sup>(1)</sup>	Interest Income	Average Rate of Return <sup>(1)</sup>	Interest Income	Average Rate of Return <sup>(1)</sup>
	(in millions of RMB, except percentages)					
Trust plans .....	1,346.1	8.60%	1,327.0	7.51%	1,823.5	7.54%
Asset management plans .....	90.1	4.99%	255.7	3.10%	1,099.5	4.49%
Wealth management products issued by other PRC commercial banks .....	17.1	1.06%	592.5	5.80%	1,088.2	4.11%
Investment funds and others.....	15.2	1.73%	—	—	127.5	2.10%
<b>Total.....</b>	<b><u>1,468.5</u></b>		<b><u>2,175.2</u></b>		<b><u>4,138.7</u></b>	

*Note:*

- (1) Calculated by dividing (i) our income from the corresponding assets in the year, by (ii) the average balance of these assets at the beginning and the end of the year.

During the Track Record Period, the interest income generated from our trust plans, asset management plans, wealth management products issued by other PRC commercial bank and investment funds increased significantly primarily due to our efforts to expand our financial markets business after the Reorganization.

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The average rates of return for our investments in trust plans and asset management plans were relatively low in 2015 primarily due to a decrease in market interest rates as a result of lower PBoC benchmark interest rates and loose market liquidity in 2015. The average rates of return for our wealth management products issued by other PRC commercial banks and investment funds and others were relatively low in 2014 because we rarely conducted investments in these products before the Reorganization and as a result, our income derived from the corresponding assets was minor. Therefore, the average rates of return of these products in 2014 are not comparable to that in 2015 and 2016.

We evaluate and classify the risks of relevant underlying assets of other debt instruments issued by financial institutions and conduct the risk management of our investment accordingly. The following table sets forth the breakdown of our investments in Non-standard Credit Assets by their underlying assets as of December 31, 2016.

As of December 31, 2016						
Trust plans	Asset Management Plans	Wealth management products issued by other PRC commercial banks	Investment funds and others	Total	% of total	
(in millions of RMB, except for percentages)						
Debt securities .....	—	6,270.9	—	1,254.0	7,524.9	6.9%
Bank deposits .....	—	11,114.2	—	—	11,114.2	10.2%
Fixed-income credit assets ....	27,494.5	14,915.7	—	5,343.4	47,753.6	43.8%
Wealth management products.....	—	2,929.3	34,287.7	5,522.3	42,739.3	39.2%
<b>Total.....</b>	<b>27,494.5</b>	<b>35,230.1</b>	<b>34,287.7</b>	<b>12,119.7</b>	<b>109,132.0</b>	<b>100.0%</b>

The table below sets forth the breakdown of our investment in Non-standard Credit Assets by collateral type as of the dates indicated.

As of December 31,						
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except for percentages)						
<b>Secured by collateral.....</b>	<b>7,541.0</b>	<b>36.5%</b>	<b>12,796.2</b>	<b>24.0%</b>	<b>22,064.0</b>	<b>20.2%</b>
Mortgaged with land or properties .....	6,149.1	29.8%	8,811.2	16.5%	9,712.8	8.9%
Pledged with equity interests in listed companies .....	—	—	—	—	442.5	0.4%
Pledged with equity interests in unlisted companies .....	137.9	0.7%	287.1	0.5%	1,839.6	1.7%
Pledged with certificates of deposit .....	982.6	4.8%	3,304.8	6.2%	4,834.5	4.4%
Pledged with receivables .....	271.2	1.3%	393.0	0.7%	5,234.5	4.8%
<b>Secured by guarantees .....</b>	<b>4,287.6</b>	<b>20.8%</b>	<b>8,112.1</b>	<b>15.2%</b>	<b>21,991.0</b>	<b>20.2%</b>
Third-party guarantee from unlisted companies .....	3,449.9	16.7%	7,564.7	14.2%	21,513.6	19.7%
Third-party guarantee from individuals.....	837.8	4.1%	547.3	1.0%	477.3	0.4%



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	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
<b>Unsecured</b> .....	<b>8,827.4</b>	<b>42.7%</b>	<b>32,470.3</b>	<b>60.8%</b>	<b>65,077.0</b>	<b>59.6%</b>
Securities companies.....	1,040.1	5.0%	2,823.1	5.3%	7,394.0	6.8%
Asset management companies .....	3.1	—	8,721.8	16.3%	20,868.5	19.1%
Fund companies .....	1,090.7	5.3%	338.3	0.6%	388.0	0.4%
Trust companies.....	4,117.2	19.9%	1,871.1	3.5%	1,083.9	1.0%
Banks .....	2,576.4	12.5%	18,716.2	35.1%	35,342.7	32.4%
<b>Total</b> .....	<b>20,656.0</b>	<b>100.0%</b>	<b>53,378.6</b>	<b>100.0%</b>	<b>109,132.0</b>	<b>100.0%</b>

The following table sets forth the breakdown of our investments in Non-standard Credit Assets by level of collateralization as of the dates indicated.

	As of December 31, 2016					
	Asset management plans	Trust plans	Other PRC Commercial Banks	Investment Funds and others	Total	% of total
<b>Secured by collateral</b>						
Mortgaged with land or properties .....	389.9	8,442.8	—	880.0	9,712.8	8.90%
Pledged with equity interests in listed companies .....	—	—	—	442.5	442.5	0.41%
Pledged with equity interests in unlisted companies .....	—	1,143.6	—	696.1	1,839.6	1.69%
Pledged with certificates of deposits .....	2,408.4	2,303.3	—	122.8	4,834.5	4.43%
Pledged with receivables.....	1,252.9	3,752.9	—	228.7	5,234.5	4.80%
<b>Sub-total</b> .....	<b>4,051.2</b>	<b>15,642.6</b>	<b>—</b>	<b>2,370.1</b>	<b>22,063.9</b>	<b>20.23%</b>
<b>Secured by guarantees</b>						
Third-party guarantee from unlisted companies .....	2,846.7	10,290.8	—	8,376.2	21,513.6	19.71%
Third-party guarantee from individuals.....	—	477.3	—	—	477.3	0.44%
<b>Sub-total</b> .....	<b>2,846.7</b>	<b>10,768.1</b>	<b>—</b>	<b>8,376.2</b>	<b>21,990.9</b>	<b>20.15%</b>
<b>Unsecured</b>						
Securities companies.....	7,394.0	—	—	—	7,394.0	6.78%
Asset management companies .....	19,218.2	—	—	1,650.3	20,868.5	19.12%
Fund companies .....	69.7	—	—	318.3	388.0	0.36%
Trust Companies .....	—	1,074.0	10.0	—	1,083.9	0.99%
Banks <sup>(1)</sup> .....	—	0.0	34,287.7	1,055.0	35,342.7	32.39%
<b>Sub-total</b> .....	<b>26,681.8</b>	<b>1,074.0</b>	<b>34,297.7</b>	<b>3,023.6</b>	<b>65,077.1</b>	<b>59.63%</b>
<b>Total</b> .....	<b>33,579.8</b>	<b>27,484.6</b>	<b>34,297.7</b>	<b>13,769.9</b>	<b>109,132.0</b>	<b>100.00%</b>

Note:

- (1) As of December 31, 2016, we only had investments in non-principal protected wealth management products issued by other PRC commercial banks which amounted to RMB34,287.7 million.

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For our risk management with respect to our unsecured investments in Non-standard Credit Assets, please see “Risk Management — Credit Risk Management — Credit Risk Management for our Financial Markets Business — Credit Risk Management for Investments in Standard Investment Products and Non-standard Credit Assets — Investments in Non-standard Credit Assets”.

The table below sets forth, as of December 31, 2016, the distribution of our investments in trust plans and asset management plans by industry classification.

As of December 31, 2016				
	Trust plans under which credit facilities were extended to financing parties	Asset management plans under which credit facilities were extended to financing parties	Total	% of total
(in millions of RMB, except for percentages)				
Manufacturing .....	727.6	29.8	757.4	1.2%
Real estate .....	6,329.5	1,036.3	7,365.8	11.7%
Retail and wholesale .....	1,114.5	3,803.3	4,917.8	7.8%
Leasing and business services .....	10,121.8	2,207.6	12,329.4	19.7%
Water, environment and public facilities management .....	—	994.4	994.4	1.6%
Construction .....	1,567.0	994.4	2,561.4	4.1%
Electricity, gas and water production and supply .....	193.9	—	193.9	0.3%
Finance .....	399.3	26,064.9	26,464.2	42.2%
Agriculture, forestry, animal husbandry and fishery .....	348.0	—	348.0	0.6%
Mining .....	1,668.6	—	1,668.6	2.7%
Public management, social security and social organizations .....	1,760.0	—	1,760.0	2.8%
Transportation .....	1,760.1	—	1,760.1	2.8%
Education .....	477.3	99.4	576.7	0.9%
Health and social work .....	347.5	—	347.5	0.6%
Culture, sports and entertainment .....	679.3	—	679.3	1.1%
<b>Total .....</b>	<b><u>27,494.5</u></b>	<b><u>35,230.1</u></b>	<b><u>62,724.6</u></b>	<b><u>100.0%</u></b>

The table sets forth the five largest financing parties under securities held by our trust plans that had a single financing party as of the dates indicated.

As of December 31, 2014			
	Industry	Amount	% of investments in trust plans
(in millions of RMB, except percentages)			
Borrower A .....	Leasing and business services	591.0	4.1%
Borrower B .....	Education	542.3	3.7%
Borrower C .....	Leasing and business services	443.3	3.1%
Borrower D .....	Manufacturing	394.0	2.7%
Borrower E .....	Leasing and business services	295.5	2.0%
<b>Total .....</b>		<b><u>2,266.1</u></b>	<b><u>15.6%</u></b>

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As of December 31, 2015

	Industry	Amount	% of investments in trust plans
(in millions of RMB, except percentages)			
Borrower F .....	Real estate	1,799.1	8.6%
Borrower G .....	Real estate	1,293.5	6.2%
Borrower I .....	Public management, social security and social organization	995.0	4.8%
Borrower H .....	Real estate	955.2	4.6%
Borrower J .....	Mining	796.0	3.8%
Borrower K .....	Real estate	796.0	3.8%
Borrower L .....	Leasing and business services	796.0	3.8%
<b>Total</b> .....		<b>7,430.8</b>	<b>35.6%</b>

As of December 31, 2016

	Industry	Amount	% of investments in trust plans
(in millions of RMB, except percentages)			
Borrower J .....	Mining	1,491.6	5.4%
Borrower M .....	Leasing and business services	1,103.8	4.0%
Borrower N .....	Leasing and business services	994.4	3.6%
Borrower I .....	Public management, social security and social organization	994.3	3.6%
Borrower H .....	Real estate	954.6	3.5%
<b>Total</b> .....		<b>5,538.7</b>	<b>20.1%</b>

The table below sets forth the five largest financing parties under securities held by our asset management plans that had a single financing party as of the dates indicated.

As of December 31, 2014

	Industry	Amount	% of investments in asset management plans
(in millions of RMB, except percentages)			
Borrower O .....	Leasing and business services	985.0	36.3%
Borrower P .....	Real estate	197.0	7.3%
Borrower Q .....	Manufacturing	197.0	7.3%
Borrower R .....	Agriculture, forestry, animal husbandry and fishery	147.8	5.4%
Borrower S .....	Real estate	113.8	4.2%
<b>Total</b> .....		<b>1,640.6</b>	<b>60.4%</b>

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As of December 31, 2015

	Industry	Amount	% of investments in asset management plans
(in millions of RMB, except percentages)			
Borrower T .....	Water, environment and public facilities management	1,990.0	14.4%
Borrower U .....	Leasing and business services	995.0	7.2%
Borrower O .....	Leasing and business services	995.0	7.2%
Borrower P .....	Real estate	170.0	1.2%
Borrower R .....	Agriculture, forestry, animal husbandry and fishery	145.5	1.1%
<b>Total</b> .....		<b>4,295.5</b>	<b>31.1%</b>

As of December 31, 2016

	Industry	Amount	% of investments in asset management plans
(in millions of RMB, except percentages)			
Borrower T .....	Water, environment and public facilities management	994.4	2.8%
Borrower U .....	Leasing and business services	994.4	2.8%
Borrower V .....	Construction	994.4	2.8%
Borrower W .....	Leasing and business services	497.2	1.4%
Borrower X .....	Leasing and business services	278.4	0.8%
<b>Total</b> .....		<b>3,758.8</b>	<b>10.7%</b>

The table below sets forth, as of December 31, 2016, the breakdown of our investments in each type of Non-standard Credit Assets by remaining maturity.

As of December 31, 2016

	Trust plans	Asset management plans	Wealth management products issued by other PRC commercial banks	Investment Funds and others	Total	% of total
(in millions of RMB, except for percentages)						
Due within 3 months.....	1,531.1	10,937.2	20,347.8	481.5	33,297.6	30.5%
Due over 3 months up to 1 year.....	9,330.4	15,806.0	13,910.1	4,689.0	43,735.5	40.1%
Due over 1 year up to 5 years.....	15,474.6	7,221.9	29.8	6,720.5	29,446.8	27.0%
Due over 5 years .....	10.0	1,093.8	—	228.7	1,332.5	1.2%
<b>Subtotal</b> .....	<b>26,346.1</b>	<b>35,058.9</b>	<b>34,287.7</b>	<b>12,119.7</b>	<b>107,812.4</b>	<b>98.8%</b>
Overdue .....	1,148.4	171.2	—	—	1,319.6	1.2%
<b>Total</b> .....	<b>27,494.5</b>	<b>35,230.1</b>	<b>34,287.7</b>	<b>12,119.7</b>	<b>109,132.0</b>	<b>100.0%</b>

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We take proactive measures to improve and maintain the liquidity of Non-standard Credit Assets. As of December 31, 2016, approximately 70.6% of Non-standard Credit Assets portfolio had remaining maturities up to one year. To further mitigate our liquidity risks associated with our investments in Non-standard Credit Assets, we also formulated a fund position management contingency plan to deal with extreme situations where we expect the disposal of Non-standard Credit Assets may not provide sufficient liquidity for our normal business operations. According to the fund position management contingency plan, we closely monitor liquidity risks of our Bank and make routine liquidity assessment for our management's review. Upon occurrence of potential liquidity risks, we would, according to the severity of relevant situations, take measures to ensure reliability and sufficiency of our funding sources and improve our assets and liability mix. Measures include the control or suspension of the development of certain new asset businesses, such as bond investments, bill discounting, loan extension, placements and deposits with banks and other financial institutions, and disposal of certain assets to maintain sufficient liquidity support. For details, please see "Risk Management — Liquidity Risk Management" and "Risk Factors — Risks Relating to Our Business — Any adverse development in relation to our investments in Non-standard Credit Assets may materially and adversely affect our profitability and liquidity."

As of December 31, 2016, 1.2% of our total investment in Non-standard Credit Assets had overdue payment of principal and/or interests, primarily due to slowdown of economic growth in China in recent years, resulting in operational difficulties of underlying ultimate borrowers in relevant trust plans or asset management plans that operate in different industries, including cement manufacturing, real estate properties development and commodity trading. We have undertaken proactive measures to mitigate relevant risks associated with above mentioned overdue investments, including requesting additional securities, demanding immediate payment and initiating necessary litigation.

We assess our investments in Non-standard Credit Assets regularly to determine whether there is any objective evidence for impairments, and, if so, the amount of impairment losses. As of December 31, 2016, we had made provisions for impairment losses on our overdue investment in the above mentioned assets in an amount of RMB330.4 million in accordance with the requirements under IFRS and our accounting policies. We believe that we have made sufficient allowance to cover the estimated losses on our overdue investments in Non-standard Credit Assets.

In April 2014, the CBRC, jointly with other government authorities, issued the Notice on the Regulation of Interbank Business in Financial Institutions (《關於規範金融機構同業業務的通知》, "Circular 127"), which provides that financial assets purchased for resale (sold under repurchase agreements) shall be bank acceptance bill, bond, central bank bill and other highly liquid financial assets traded on the interbank market and the stock exchanges with reasonable fair value. The same circular also provides that the financial institutions that engage in the businesses of purchase for resale (sales under repurchase agreements) and interbank investment shall not accept or offer any direct or indirect, explicit or implicit credit guarantee from or to third-party financial institutions, unless otherwise stipulated by the government. Since Circular 127 became effective, the financial assets purchased for resale (sold under repurchase agreements) by us all meet the relevant requirements under the Circular 127 and we no longer accept or offer any credit guarantee from or to third-party financial institutions in the conduct of businesses of purchase for resale (sales under repurchase agreements) and interbank investment business. For further details on Circular 127, see "Supervision and Regulation — Regulation on Principal Commercial Banking Activities — Interbank Business".

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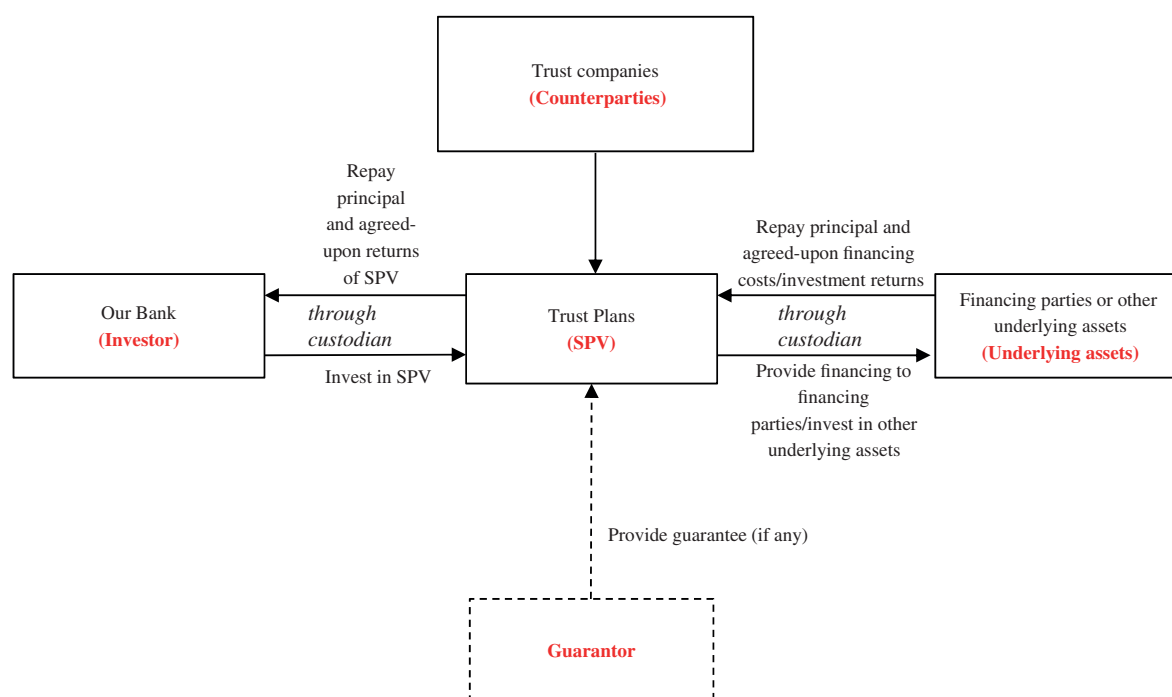
Going forward, we intend to cautiously expand our operations in relation to investments in Non-standard Credit Assets in compliance with relevant laws, regulations and our internal risk management measures, to achieve stable returns with manageable risks. For details of our risk management measures for Non-standard Credit Assets, please see “Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Markets Business — Investment Business — Investments in Non-standard Credit Assets”.

### Trust Plans

Through investing in trust plans managed by trust companies, we entrust trust companies to manage our funds. The trust companies then extend credit to the financing parties as principals.

As of December 31, 2014, 2015 and 2016, the balances of our investments in trust plans were RMB14,467.5 million, RMB20,871.6 million and RMB27,494.5 million, respectively.

The financing parties’ obligations owed to the trust companies are secured by mortgages or pledges granted by the financing parties on their properties to the trust companies or by the irrevocable joint and several guarantee provided by relevant guarantors to the trust companies. The financing parties use the funds provided by trust companies for business operations, and shall repay the principal as well as the agreed-upon returns pursuant to the trust term. The following chart illustrates the relationship among the parties involved in our investments in trust plans:



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The following table sets forth the breakdown of our investments in trust plans in terms of underlying assets as of the date indicated:

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Fixed-income credit assets .....	13,334.7	92.2%	20,871.6	100%	27,494.5	100%
Wealth management products .....	1,132.8	7.8%	—	—	—	—
<b>Total</b> .....	<b><u>14,467.5</u></b>	<b><u>100.0%</u></b>	<b><u>20,871.6</u></b>	<b><u>100.0%</u></b>	<b><u>27,494.5</u></b>	<b><u>100.0%</u></b>

During the Track Record Period, all of our counterparties for trust plans were licensed to conduct their trust businesses under applicable laws and regulations. In each year of our Track Record Period, the top five counterparties of our investments in trust plans were sizable state-owned or private enterprises with sound reputation and good track record of performance. As of December 31, 2014, 2015 and 2016, our investments in trust plans managed by the five largest counterparties accounted for 78.4%, 73.4% and 94.5% of our total investments in trust plans, respectively. The table below sets forth our five largest trust company counterparties as of the dates indicated.

As of December 31, 2014				
Nature	Total assets as of December 31, 2014 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in trust plans
	(in millions of RMB, except percentages)			
Company A .....	3,472.2	N/A <sup>(2)</sup>	6,563.5	45.4%
Company B .....	5,428.1	N/A <sup>(2)</sup>	2,911.8	20.1%
Company C .....	12,200.3	N/A <sup>(2)</sup>	707.3	4.9%
Company D .....	3,412.8	N/A <sup>(2)</sup>	619.6	4.3%
Company E .....	3,513.4	N/A <sup>(2)</sup>	541.8	3.7%
<b>Total</b> .....			<b><u>11,343.9</u></b>	<b><u>78.4%</u></b>

As of December 31, 2015				
Nature	Total assets as of December 31, 2015 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in trust plans
	(in millions of RMB, except percentages)			
Company B .....	6,740.8	N/A <sup>(2)</sup>	5,054.0	24.2%
Company A .....	5,130.8	N/A <sup>(2)</sup>	4,748.5	22.8%
Company G .....	29,252.8	N/A <sup>(2)</sup>	2,132.3	10.2%
				financial institution
Company H .....	23,798.9	N/A <sup>(2)</sup>	2,098.2	10.1%
Company J .....	4,848.2	N/A <sup>(2)</sup>	1,293.5	6.2%
<b>Total</b> .....			<b><u>15,326.4</u></b>	<b><u>73.4%</u></b>

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As of December 31, 2016

Nature	Total assets as of December 31, 2016	Regulatory ratings/Credit ratings	Amount	% of investments in trust plans	
(in millions of RMB, except percentages)					
Company A.....	State-owned	7,589.8	N/A <sup>(2)</sup>	11,704.7	42.6%
Company H.....	State-owned	27,921.5	N/A <sup>(2)</sup>	8,806.9	32.0%
Company G.....	Trust company controlled by financial institution	26,112.6	N/A <sup>(2)</sup>	2,640.1	9.6%
Company B.....	State-owned	7,391.9	N/A <sup>(2)</sup>	2,410.2	8.8%
Company I.....	State-owned	7,463.8	N/A <sup>(2)</sup>	401.8	1.5%
<b>Total.....</b>				<b>25,963.7</b>	<b>94.5%</b>

*Notes:*

- (1) Source: each company's annual report prepared on an unconsolidated basis.
- (2) Source: There is no publicly available and reliable regulatory or credit rating.

We strive to improve our risk control measures to mitigate risks associated with investments in trust plans through adopting various measures, including conducting stringent checks on credit history and the business track records of relevant counterparties, keeping track of repaying abilities of guarantors, studying the PRC laws, regulations and policies that may affect the industry trend in relation to the trust products; and closely monitoring the fluctuations in market interest rate to select appropriate products.

According to relevant agreements, financing parties, third parties or guarantors are requested to provide security to the payment of principal and interest of our investments in trust plans. As of December 31, 2016, approximately 38.1% of the fund extended under our investments in trust plans were secured by third-party guarantees, approximately 34.3% of such funds were secured by properties and land, and approximately 22.6% of these funds were secured by pledges of company shares or accounts receivable. Approximately 5.0% of such fund was unsecured. In managing our investments in trust plans, we only accept collateral in the form of properties and land with clear, legal and valid title and ownership. The value of such collateral is assessed and determined by designated appraisal institutions which meet our requirements. We typically require the loan-to-value ratio (representing the financing amount to the value of the collateral) to be no more than 90%. We will not invest in trust plans where the underlying assets are secured by pledges of company shares of value less than the aggregate amount of principal and interest payable by the borrower. We will review the business operations, financial condition, credit quality and the ability to repay of the guarantors to ensure their capabilities of performing guarantee obligation.

We have been advised by King & Wood Mallesons, our PRC legal advisor, that in accordance with the Trust Law of the PRC, trust assets shall be segregated from the assets owned by the trustee, and may not be included in, or become part of, the trustee's own assets. Therefore, any security deposits obtained from the guarantor may not be used to repay the trust company's own debts. The security interests over the trust assets or our investments in trust plans should not be affected even if the trust companies encounter financial difficulties.

For risk management measures we have adopted for our investments in trust plans, please see "Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Markets Business — Investments in Non-standard Credit Assets."



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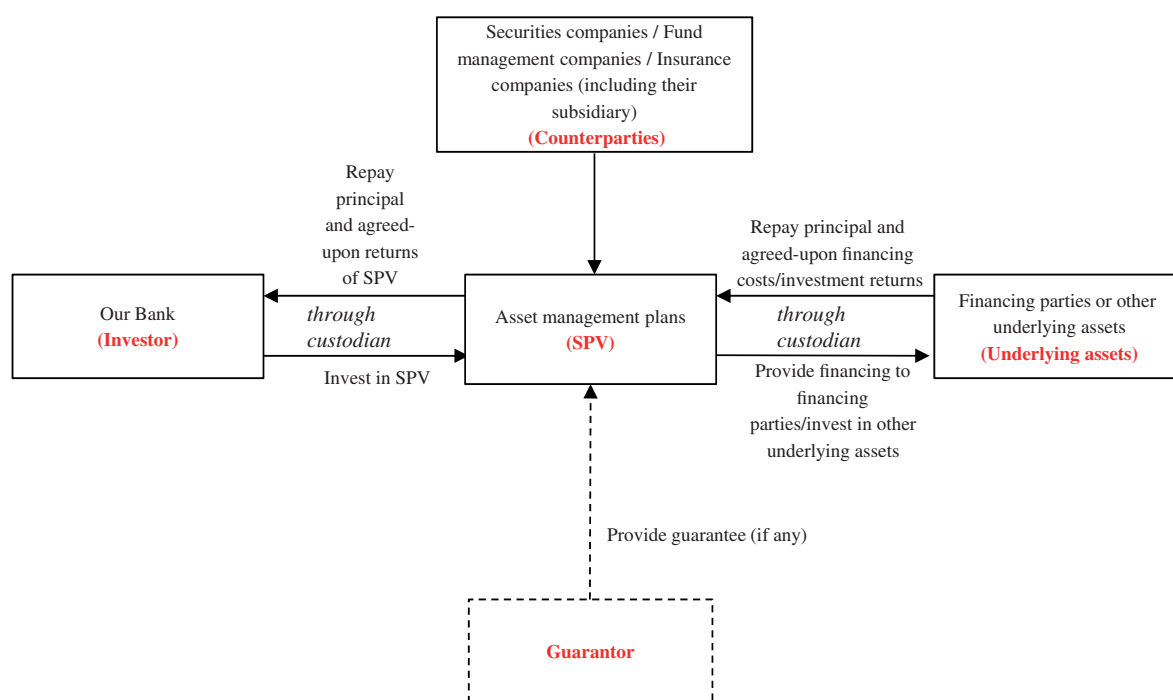
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### Asset Management Plans

We enter into asset management contracts with quality asset management companies or reputable securities companies who then proceed to invest our funds in specified products, primarily including fixed income credit assets, through our designated accounts with third-party custodian banks. As of December 31, 2014, 2015 and 2016, the balance of our investments in asset management plans was RMB2,715.2 million, RMB13,787.8 million and RMB35,230.1 million, respectively.

The asset management contracts we enter into generally set out key terms including investment scope and executive procedures for assets management plans. In addition, pursuant to the terms and conditions of those contracts, we usually provide asset management companies or securities companies with detailed written investment instructions including investment amount, investment terms, interest rates and special bank accounts. Asset management companies or the securities companies will be responsible for our loss resulting from their management of our entrusted funds if they fail to carry out our investment instructions or breach the terms and conditions of the asset management contracts. Custodian banks will be responsible for any losses incurred by the asset management companies or securities companies or us as a result of their failure to perform custody services in accordance with the asset management contracts. Asset management companies and securities companies do not provide any guarantee in relation to the asset management plans they sponsor.

The chart below illustrates the relationship among the parties involved in our investments in asset management plans:



We evaluate asset management companies or securities companies cooperating with us periodically in respect of their assets quality, regulatory compliance and reputation damages, so as to update our cooperating companies list on a timely basis and thereby mitigate risk correlated with such cooperation. During the Track Record Period, all of the counterparties to our investments in asset

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management plans were qualified under applicable laws and regulations to carry out their businesses. As of December 31, 2014, 2015 and 2016, our investments in the asset management plans issued by the five largest counterparties accounted for 87.3%, 78.3% and 67.5% of our total investment in asset management plans, respectively.

The table below sets forth our five largest counterparties for asset management plans as of the dates indicated.

As of December 31, 2014					
Nature	Total assets as of December 31, 2014 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in asset management plans	
(in millions of RMB, except percentages)					
Company J.....	State-owned securities company	28,269.2 <sup>(1)</sup>	BBB <sup>(3)</sup>	1,083.5	39.9%
Company W.....	State-owned securities company	19,135.5	N/A <sup>(4)</sup>	547.6	20.2%
Company L.....	Asset management company controlled by a state-owned trust company	N/A <sup>(2)</sup>	N/A <sup>(4)</sup>	344.8	12.7%
Company N.....	Private securities company	6,522.0	B <sup>(3)</sup>	197.0	7.3%
Company M.....	Asset management company controlled by securities companies	1,617.0	N/A <sup>(4)</sup>	197.0	7.3%
<b>Total.....</b>				<b><u>2,369.8</u></b>	<b><u>87.3%</u></b>
As of December 31, 2015					
Nature	Total assets as of December 31, 2015 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in asset management plans	
(in millions of RMB, except percentages)					
Company O.....	State-owned asset management company	21,701.0	N/A <sup>(4)</sup>	4,240.7	30.8%
Company X.....	Private asset management company	N/A <sup>(2)</sup>	N/A <sup>(4)</sup>	2,288.5	16.6%
Company P.....	Asset management company controlled by a listed securities company	701,100.0	AA <sup>(3)</sup>	2,050.7	14.9%
Company R.....	State-owned securities company	235,000.0	B <sup>(3)</sup>	1,107.9	8.0%
Company S.....	State-owned securities company	1,545,000.0	AA <sup>(3)</sup>	1,107.2	8.0%
<b>Total.....</b>				<b><u>10,795.0</u></b>	<b><u>78.3%</u></b>

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As of December 31, 2016

Nature	Total assets as of December 31, 2016 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in asset management plans	
(in millions of RMB, except percentages)					
Company U.....	Asset management company controlled by government-owned entities	1,011.0	N/A <sup>(4)</sup>	6,069.5	17.2%
Company O.....	State-owned asset management company	13,236.0	N/A <sup>(4)</sup>	5,571.0	15.8%
Company T.....	Asset management company controlled by government-owned entities	1,337.0	N/A <sup>(4)</sup>	5,044.7	14.3%
Company V.....	Private securities company	11,460.8	BBB <sup>(3)</sup>	3,803.3	10.8%
Company P.....	Asset management company controlled by a listed securities company	18,050.8	BBB <sup>(3)</sup>	3,294.4	9.4%
<b>Total.....</b>			<b><u>23,782.7</u></b>	<b><u>67.5%</u></b>	

Notes:

- (1) Source: each company's annual report prepared on an unconsolidated basis.
- (2) As of the Latest Practicable Date, these companies' annual reports were not publicly available.
- (3) Source: CSRC.
- (4) Source: There is no publicly available and reliable regulatory or credit rating.

The following table sets forth the breakdown of our investments in assets management plans in terms of underlying assets as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except for percentages)						
Debt securities.....	—	—	2,525.2	18.3%	6,270.9	17.8%
Bank deposits.....	—	—	1,990.0	14.4%	11,114.2	31.5%
Fixed-income credit assets.....	2,518.2	92.7%	9,272.6	67.3%	14,915.7	42.3%
Wealth management products.....	197.0	7.3%	—	—	2,929.3	8.4%
<b>Total.....</b>	<b><u>2,715.2</u></b>	<b><u>100.0%</u></b>	<b><u>13,787.8</u></b>	<b><u>100.0%</u></b>	<b><u>35,230.1</u></b>	<b><u>100.0%</u></b>

Similar to our investments in trust plans, we only accept collateral in the form of properties and land with clear, legal and valid title and ownership in managing investments in asset management plans. The value of such collateral is assessed and determined by designated appraisal institutions which meet our requirements. For details of the credit approval procedures for our asset management plans, please see “Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Markets Business — Credit Risk Management for Investments in Standard Investment Products and Non-standard Credit Assets”.

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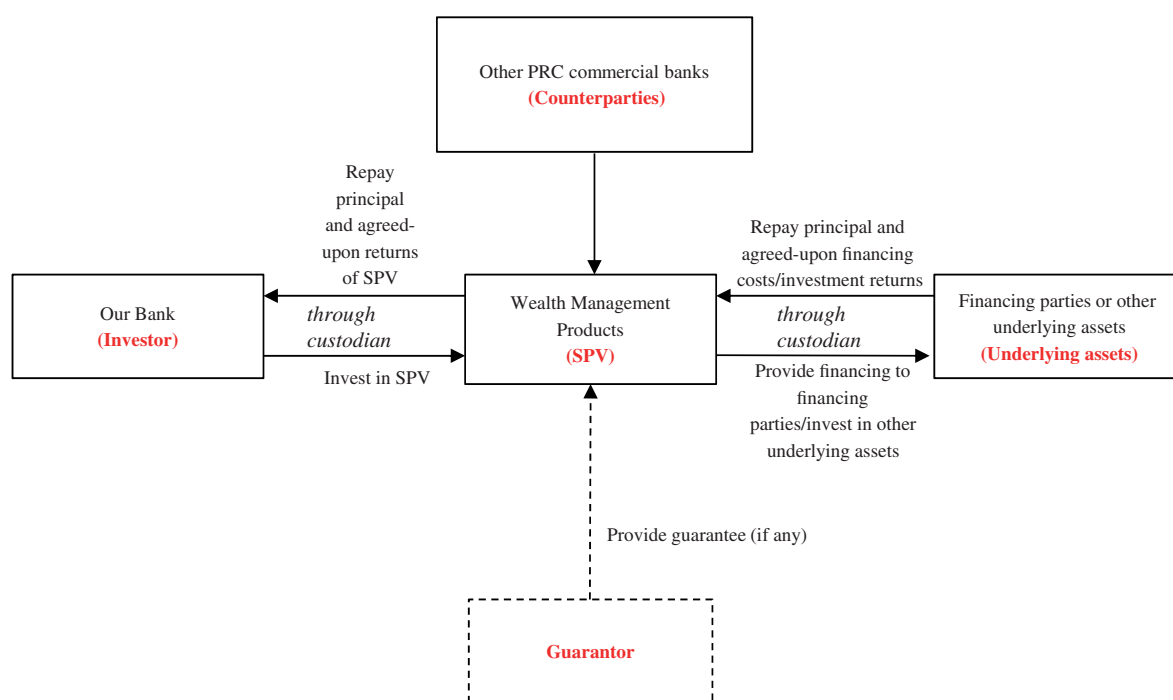
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### Wealth Management Products Issued by Other PRC Commercial Banks

We invest in wealth management products issued by other PRC commercial banks. As of December 31, 2016, we invested in a total number of 41 wealth management products issued by nine PRC commercial banks. These banks, as the issuers and managers of the wealth management products, may invest the proceeds in debt securities or trust plans, asset management plans and other relevant assets. During the Track Record Period, the wealth management products we invested in included principal protected products with fixed or floating investment yields and non-principal protected products with floating investment yields depending on the portfolio investments under each product.

According to the agreements we entered into with other PRC commercial banks issuing wealth management products, we are generally requested to deposit payment for purchasing relevant wealth management products to bank accounts designated by the commercial banks issuing such wealth management products. Such commercial banks generally make repayment of principal and investment yields upon the maturity of the products according to terms and conditions in relevant agreements. In addition, the commercial banks issuing relevant wealth management products are entitled to commissions and/or administration fees. Pursuant to relevant agreements, commercial banks issuing wealth management products can, at their discretion, partially or entirely terminate the agreements in advance, upon occurrence of certain events listed in the agreements, including material adverse development in general economic conditions, regulations or policies.

The following chart illustrates the relationship among the parties involved in our investments in wealth management products issued by other PRC commercial banks:



As of December 31, 2014, 2015 and 2016, top five counterparties to our investments in the wealth management products issued by other PRC commercial banks accounted for 92.4%, 62.7% and 91.8%, respectively, of our total investments in wealth management products issued by other PRC commercial banks as of the same dates.

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The table below sets forth our five largest counterparties for wealth management products as of the dates indicated.

As of December 31, 2014					
Nature	Total assets as of December 31, 2014 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in wealth management products	
(in millions of RMB, except percentages)					
Bank A .....	Large commercial bank	15,251,382.0	A <sup>(2)</sup>	613.4	35.7%
Bank B .....	Joint-stock commercial bank	4,406,399.0	AAA <sup>(2)</sup>	424.0	24.6%
Bank C .....	Large commercial bank	15,891,159.0	A <sup>(2)</sup>	284.0	16.5%
Bank D .....	Large commercial bank	19,553,715.0	A <sup>(2)</sup>	150.8	8.8%
Bank E .....	Large commercial bank	16,319,783.0	AAA <sup>(2)</sup>	116.9	6.8%
<b>Total</b> .....				<b>1,589.1</b>	<b>92.4%</b>

As of December 31, 2015					
Nature	Total assets as of December 31, 2015 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in wealth management products	
(in millions of RMB, except percentages)					
Bank F .....	Joint-stock commercial bank	3,167,710.0	AAA <sup>(2)</sup>	2,985.0	15.9%
Bank G .....	City commercial bank	716,464.6	AAA <sup>(2)</sup>	1,990.0	10.6%
Bank H .....	City commercial bank	1,449,140.5	Baa2 <sup>(2)</sup>	1,990.0	10.6%
Bank A .....	Large commercial bank	16,815,597.0	AAA <sup>(2)</sup>	1,791.0	9.6%
Bank I .....	Joint-stock commercial bank	5,122,292.0	AAA <sup>(2)</sup>	1,492.5	8.0%
Bank J .....	Joint-stock commercial bank	2,507,149.0	AAA <sup>(2)</sup>	1,492.5	8.0%
<b>Total</b> .....				<b>11,741.0</b>	<b>62.7%</b>

As of December 31, 2016					
Nature	Total assets as of December 31, 2016 <sup>(1)</sup>	Regulatory ratings/Credit ratings	Amount	% of investments in wealth management products	
(in millions of RMB, except percentages)					
Bank J .....	Joint-stock commercial bank	2,800,983.0	AAA <sup>(2)</sup>	11,044.5	32.2%
Bank B .....	Joint-stock commercial bank	5,709,692.0	AAA <sup>(2)</sup>	6,994.9	20.4%
Bank K .....	Joint-stock commercial bank	2,273,723.0	AAA <sup>(2)</sup>	5,472.5	16.0%
Bank L .....	Joint-stock commercial bank	5,857,263.0	AAA <sup>(2)</sup>	3,980.0	11.6%
Bank F .....	Joint-stock commercial bank	3,836,367.0	AAA <sup>(2)</sup>	3,980.0	11.6%
<b>Total</b> .....				<b>31,471.9</b>	<b>91.8%</b>

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*Note:*

- (1) Source: each company's annual report prepared on an unconsolidated basis.
- (2) Source: publicly available rating reports on third-party websites.

As of December 31, 2016, all of our investments in wealth management products issued by other PRC commercial banks were non-principal protected. As of December 31, 2014, 2015 and 2016, the balance of our investments in wealth management products issued by other PRC commercial banks was RMB1,720.1 million, RMB18,719.2 million and RMB34,287.7 million, respectively. For details on risk management on our investment in wealth management products, please see "Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Markets Business — Credit Risk Management for Investments in Standard Investment Products and Non-standard Credit Assets — Investments in Non-standard Credit Assets".

### Investment Funds and Others

In managing this business line, we mainly invest in investment funds, which then use our funds to invest in credit assets, debt securities, wealth management products and financial assets issued by non-financial institutions. From time to time, we may directly invest in debt securities when we deem appropriate. As of December 31, 2016, our investments in investment funds and others amounted to RMB12,119.7 million.

All the investment funds in which we invest are subject to the supervision and regulation by the CBRC and other relevant regulatory authorities, and have the required qualifications for investment fund offerings, as well as extensive experience, established reputation and solid performance in the industry.

To manage risks associated with our investment in investment funds, we have adopted the following measures: (i) investments are centrally managed at our head office, which is the sole responsible office for the approval and review of such investment business; (ii) our investment banking team is required to fully understand the operations, historical performance, investment scope and strategies of the fund managers before making any investments; (iii) the investment plan shall be reviewed and evaluated by specific risk management department, and then submitted to authorized committees for final approval; (iv) we communicate with fund management companies periodically and reallocate or rearrange our investments based on their operations scales and conditions; (v) the underlying financing parties in our investments are required to provide adequate collateral or irrevocable third party-guarantees. We only accept collateral in the form of properties and land with clear, legal and valid title and ownership in managing such investments. The value of such collateral is assessed and determined by designated appraisal institutions which meet our requirements.

### *Wealth Management*

During the Track Record Period, we issued our own wealth management products to our corporate banking, retail banking and interbank customers and used the proceeds generated therein to invest in various financial products for profit. For the years ended December 31, 2014, 2015, and 2016, wealth management products issued by us amounted to RMB12,561.9 million, RMB18,758.4 million and RMB75,612.2 million, respectively. The table below sets forth a breakdown, by size of

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each tranche, of accumulative total amount of the wealth management products issued by us during the periods indicated.

	Year ended December 31,					
	2014		2015		2016	
	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds
	(in millions of RMB, except number of tranches)					
Up to RMB10.0 million .....	4	28.1	1	10.0	8	67.1
Over RMB10.0 million to RMB50.0 million .....	46	2,134.3	13	427.0	84	2,847.2
Over RMB50.0 million to RMB100.0 million .....	68	6,699.6	21	1,724.2	111	9,766.4
Over RMB100.0 million to RMB500.0 million .....	27	3,699.9	45	12,152.5	247	58,779.8
Over RMB500.0 million .....	—	—	7	4,444.7	6	4,151.8
<b>Total</b> .....	<b>145</b>	<b>12,561.9</b>	<b>87</b>	<b>18,758.4</b>	<b>456</b>	<b>75,612.2</b>

In designing our wealth management products, we study specific demands of different groups of target customers in the market and adjust specifications of our products accordingly. While mitigating the risks based on customers' risk tolerance, we seek to maximize returns to our customers by market anticipation and the integrated use of various investment strategies and techniques during the investment management process. We also emphasize on providing customers with convenient access to such products at our distribution network and online platforms. In March and August 2015, we began to issue a series of wealth management products under the brand “Heyday Fortunes (鼎盛財富)”, containing both principal protected and non-principal protected wealth management products, to retail banking customers first followed by corporate banking customers. For details, please see “— Corporate Banking — Other Fee- and Commission-Based Corporate Banking Products and Services — Corporate Wealth Management Services” and “— Retail Banking — Fee- and Commission-Based Retail Banking Products and Services — Personal Wealth Management Services”.

The table below sets forth the breakdown of wealth management products issued by us into principal protected and non-principal protected products as of the dates indicated.

	For the year ended December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Principal protected products .....	9,113.7	72.6%	2,828.6	15.1%	15,644.7	20.7%
Non-principal protected products .....	3,448.2	27.4%	15,929.8	84.9%	59,967.5	79.3%
<b>Total</b> .....	<b>12,561.9</b>	<b>100.0%</b>	<b>18,758.4</b>	<b>100.0%</b>	<b>75,612.2</b>	<b>100.0%</b>

In compliance 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.

Pursuant to the Measures for the Administration of the Sale of Wealth Management Products of Commercial Banks (《商業銀行理財產品銷售管理辦法》) (CBRC Order [2011] No. 5) issued by the CBRC in 2011, we classify our wealth management products into five categories based on their risk

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levels: Level 1 refers to low risk; level 2 refers to low-medium risk; level 3 refers to medium risk; level 4 refers to medium-high risk and level 5 refers to high risk. During the Track Record Period, we correlated the risk levels of our wealth management products to the risk tolerance level of customers and only issued level 1, level 2 and level 3 products.

The table below sets forth details of the wealth management products issued by us by different level of risk during the periods indicated.

	Year ended December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Risk Level .....						
Level 1 .....	3,957.9	31.5%	1,475.2	7.9%	15,644.7	20.7%
Level 2 .....	8,604.0	68.5%	15,734.1	83.9%	41,277.7	54.6%
Level 3 .....	—	—	1,549.1	8.3%	18,689.8	24.7%
<b>Total</b> .....	<b>12,561.9</b>	<b>100.0%</b>	<b>18,758.4</b>	<b>100.0%</b>	<b>75,612.2</b>	<b>100.0%</b>

We invested the proceeds from our wealth management products mainly in bonds, funds, reverse repurchase of debts securities, interbank deposits and Non-standard Credit Assets. The table below sets forth breakdown of the outstanding amount of our wealth management products by type of investments as of the dates indicated:

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Bonds .....	2,231.8	61.9%	11,418.6	82.0%	22,592.4	79.1%
Money Market Investments <sup>(1)</sup> .....	1,374.7	38.1%	340.8	2.4%	1,250.7	4.4%
Non-standard Credit Assets .....	—	—	2,180.0	15.6%	4,726.2	16.5%
<b>Total</b> .....	<b>3,606.5</b>	<b>100.0%</b>	<b>13,939.4</b>	<b>100.0%</b>	<b>28,569.3</b>	<b>100.0%</b>

Note:

- (1) Primarily include our investments in money market funds, interbank negotiable certificates of deposit, cash, reverse repurchase agreement.

During the Track Record Period and as of the Latest Practicable Date, all wealth management products issued by us had been under normal operation with the payment of principal and interest duly made without any default, and we did not record loss on any of our non-principal guaranteed wealth management products.

### ***Debt Securities Underwriting and Distribution***

Since the establishment of our Bank, we strived to develop our investment banking team to participate in debt securities underwriting and distribution business to provide our customers with comprehensive financial services and further leverage our strong capacity in managing capital market transactions and broad customer base. In February 2016, we became a member of the underwriting



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syndicates of financial debt securities issued by three policy banks, namely China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China. As of December 31, 2016, the aggregate principal amount of debt securities that were underwritten and distributed by us amounted to RMB15.1 billion. In addition, in October 2016, we obtained the qualification from NAFMII to distribute debt instruments issued by non-financial institutions.

### ***Bill Discounting and Rediscounting***

We engage in interbank discounts of commercial bills with other qualified financial institutions or rediscounts of commercial bills with the PBoC, to generate working capital and income from interest spreads. We offer interbank discount services such as bills buyout, bills sell-out, bills held under reverse repurchase agreements and bills held under repurchase agreements. We rediscount bills in accordance with the regulations of the PBoC.

### **PRICING**

In compliance with applicable PRC regulatory requirements, we have established a competitive pricing mechanism. In determining the price of our products and services, we take into account various factors, including cost of funds, management costs, risk exposure and expected yield. We also evaluate the overall market conditions as well as prices for similar products and services offered by our competitors. Our pricing policies and benchmark prices are formulated and determined by Assets and Liabilities Management Committee at our head office. Our business units determine specific prices for their products and services within their respective authorizations granted by Planning and Finance Department at our head office.

### **Loans**

The PBoC regulates the pricing for certain commercial banking products and services such as our RMB-denominated loans. On July 20, 2013, the PBoC lifted restrictions on interest rates financial institutions can charge, and abolished the minimum rates for RMB-denominated loans. According to the current PBoC rules, we may charge interest rates through commercial negotiations. With respect to interest rates for residential mortgage loans, under a notice issued by the State Council, effective from March 17, 2009, the lowest interest rate we may charge for personal housing loans is 70% of the PBoC benchmark interest rate of the same term. Since May 11, 2010, the lowest interest rate we may set on personal housing loans for a second residential property is 110% of the PBoC benchmark rate. Please see “Regulation and Supervision — Pricing of Products and Services”.

When determining our pricing, we take various factors into account, including the borrower’s financial condition and credit rating, the nature and value of collateral, the term of the loan, the intended use of the loan and prevailing market conditions. We also consider cost of capital, cost of tax, management cost, general risk cost, and expected rates of return.

### **Deposits**

Since October 24, 2015, the cap on interest rates on RMB-denominated deposits for financial institutions including commercial banks was removed by the PBoC. We may offer our key corporate banking customers negotiated interest rates for their deposits based on the PBoC prescribed rates when we deem appropriate. The PBoC has liberalized interest rates on interbank placings, and we determine such rates based primarily on our assets and liabilities management policies and the market interest rate. Our Assets and Liabilities Management Committee is responsible for the review and monitoring of our deposit pricing policies. Please see “Supervision and Regulation — Pricing of Products and Services” for details.

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### Fee- and Commission-based Products and Services

With respect to fee- and commission-based products and services, we charge our services pursuant to government guidance prices or market conditions. Products and services involving the implementation of government guidance prices include basic RMB settlement business specified by the CBRC and NDRC. We adjust the prices of fee- and commission-based products and services based on factors such as the market and costs, which include constantly changing market conditions, costs of providing the products and services, and prices for similar products and services offered by our competitors. Please see “Supervision and Regulation —Pricing of Products and Services”.

### MARKETING

We have adopted a customer-oriented approach to manage our marketing and have established a professional and efficient marketing team. Our head office takes charge of formulating our overall business plans and strategies, carrying out bank-wide marketing initiatives and guidelines, and supervising the implementation of such plans and strategies in our branches and sub-branches. Branches and sub-branches generally conduct marketing activities in their respective regions and collect valuable feedback from customers for reference in future plan formulation. In order to provide high-quality customer service, we highly emphasize teamwork and cross-department coordination in our marketing activities.

For our corporate banking business, we strive to establish and maintain long-term and comprehensive strategic cooperative relationships with core corporate and institutional customers. To improve the efficiency of marketing efforts in targeting new corporate banking customers, we have taken a variety of measures, including setting up specialized departments and adopting innovative marketing measures. To better target customers from strategically important industries and to provide them with more professional services, we established (i) Healthcare Business Department, taking charge of pharmaceutical and medical equipment enterprise customers; (ii) Modern Agriculture Business Department, taking charge of enterprises in agriculture, forestry, animal husbandry and fishery as well as their upstream and downstream enterprises in their supply chains; (iii) Auto Finance Center, taking charge of car manufacturing and distribution enterprises; and (iv) Real Estate Business Department, taking charge of real estate enterprises, all of which are staffed with professional personnel who have years of experience in relevant industries. To better approach different types of our corporate banking customers, we established Conglomerate Customer Department and Institutional Customer Department. For details, please see “ — Our Principal Business Activities — Corporate Banking — Corporate Banking Customer Base”.

Capitalizing on our well-established relationship with local governments and to further tap into dynamic economic activities across Henan Province, we focus on identifying and capturing business opportunities arising from cooperation with local governments. As of the Latest Practicable Date, we entered into strategic cooperation agreements with different governments covering 17 cities and 10 counties directly administered by provincial government in Henan Province, which allows us to fully participate in (especially in the form of providing professional financial advice and carrying out comprehensive financial services) local government-led financial projects, including infrastructure construction, industrial restructuring and upgrading, implementation of agriculture modernization, reform and innovation of rural financial service as well as development of small and micro enterprises. We believe that such strategic cooperation gets us more exposure to a broader base of customer group and a more diversified business opportunities arising from the local economy.

We adopted a “Channel and Platform (建渠道·搭平台)” mechanism, where we emphasize on attracting corporate banking customers in bulk. By utilizing our stable and well-founded relationship with fiscal and local government agencies, we have built up strategic cooperation with them, through

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which we have approached a large number of enterprises with strong market positions or prospective growth potential, their subsidiaries and their upstream and/or downstream related parties. As of the Latest Practicable Date, we entered into strategic cooperation agreements with 16 city governments and 10 governments of county administrated directly by provincial government. Through such arrangement, we are able to offer our financial services to a number of local enterprises with great growth potentials. In addition, we have entered into strategic cooperation agreement with Henan SASAC, dedicated to supporting the industrial restructuring of large state-owned enterprises and industrial leading enterprises located in Henan Province. We entered into strategic cooperation agreement with Henan Provincial Science and Technology Department, and became the first batch of banks to extend “Science and Technology Loans (科技貸)” to medium and small enterprises focusing on technology innovation; and we entered into a strategic cooperation agreement with Henan Provincial Department of Commerce to support the construction of China (Zhengzhou) Cross-border E-commerce Comprehensive Pilot Area. By becoming a government-cooperation bank, providing comprehensive banking services and cross-selling our products to these enterprises, we managed to enhance customer loyalty, generate income and expand our corporate banking customer base.

In managing our retail banking business, we established a multi-layered customer service system comprising branches, wealth management centers and online channels, and promoted the cooperation of professional team and cross-departmental collaboration. In addition, we have been constantly equipping ourselves with the ability to collect and analyze credit record of individual clients, their consumption behavior patterns as well as market trend, based on which we could design or fine-tune various banking products and services that meet their specific investment needs or provide more convenient services in their daily lives, covering education, medicare and public transportation which in turn could improve customer loyalty and our profitability. For instance, we have developed “hospital self-register” service where customers could make appointment for hospital visit online simply by using our mobile banking service. In order to secure stable and quality customers in bulk, we cooperated with several schools, hospitals and bus companies to launch a range of services such as “School Pass (銀校一卡通)”, “Medical Pass (銀醫一卡通)” and “Bus Pass (公交一卡通)”, which combined bank cards with other special services into one, enabling our card holders to pay tuition fees, hospital charges and bus fares by using our bank cards.

### **DISTRIBUTION NETWORK**

We provide our banking products and services through our extensive distribution channels, consisting of a branch network, electronic banking channels and our village and township banks.

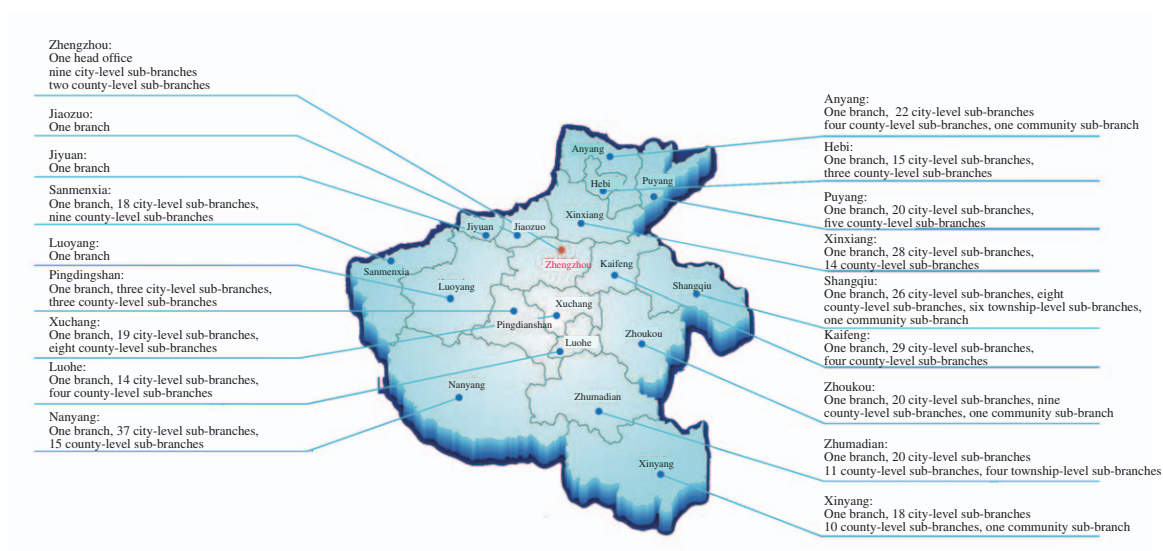
#### **Branch and Sub-branch Network**

Since the Reorganization of Thirteen City Commercial Banks in December 2014, we had further expanded our branch and sub-branch network so as to penetrate new markets through providing quality services. As of December 31, 2016, we had one head office, 17 branches, 421 sub-branches, including 305 city-level sub-branches, 116 county-level and township-level sub-branches, a total of 439 outlets, which covered all 18 provincial cities in Henan Province and 82 counties, representing approximately 80% of all counties across Henan Province.

To provide our customers with tailor-made services and to better serve those in certain fields or industries, we established specialized sub-branches directly operated and managed by our head office. As of December 31, 2016, we had one specialized sub-branch offering services specifically to institutional customers and another one targeting customers in the automobile industry.

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The following map indicates the distribution of our outlets in Henan Province as of December 31, 2016.



The following table sets forth the number of our outlets as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Number	% of total	Number	% of total	Number	% of total
Zhengzhou .....	2	0.5%	2	0.5%	12	2.7%
Kaifeng .....	34	7.9%	37	8.5%	34	7.7%
Xinyang .....	29	6.8%	29	6.7%	30	6.8%
Anyang .....	27	6.3%	28	6.5%	28	6.4%
Hebi .....	20	4.7%	20	4.6%	19	4.3%
Luohe .....	23	5.4%	23	5.3%	19	4.3%
Nanyang .....	64	15.0%	64	14.7%	53	12.1%
Pingdingshan .....	1	0.2%	2	0.5%	7	1.6%
Puyang .....	26	6.1%	26	6.0%	26	5.9%
Sanmenxia .....	30	7.0%	30	6.9%	28	6.4%
Shangqiu .....	36	8.4%	36	8.3%	42	9.6%
Xinxiang .....	44	10.3%	45	10.4%	43	9.8%
Xuchang .....	30	7.0%	30	6.9%	28	6.4%
Zhoukou .....	30	7.0%	30	6.9%	31	7.1%
Zhumadian .....	32	7.5%	32	7.4%	36	8.2%
Jiaozuo .....	—	—	—	—	1	0.2%
Jiyuan .....	—	—	—	—	1	0.2%
Luoyang .....	—	—	—	—	1	0.2%
<b>Total</b> .....	<b>428</b>	<b>100.0%</b>	<b>434</b>	<b>100.0%</b>	<b>439</b>	<b>100.0%</b>

We believe that our branch network plays an important role in developing our brand and providing quality services to our customers. We have continuously set up new branches and sub-branches to cover new areas and relocated the existing market outlets, so that we could optimize our distribution network coverage, streamline business structure and expand our customer base by

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improving our penetration in existing regions while expanding our reach in new areas. In 2015, we set up six new sub-branches and relocated 18 sub-branches. In 2016, we set up three branches, 29 sub-branches, relocated 27 sub-branches and closed 27 sub-branches. In order to develop our business with a well-structured channel system, such distribution network optimization will continue.

### **Village and Township Banks**

As of December 31, 2016, the Bank had a total of nine village and township banks which we inherited from the Thirteen City Commercial Banks. As of December 31, 2014, 2015 and 2016, the total assets of these village and township banks amounted to RMB4,229.4 million, RMB5,642.9 million and RMB7,419.6 million, respectively.

The Bank had control over four out of nine village and township banks through holding of more than 50% of their shares. The remaining five village and township banks were aligned with the Bank through acting-in-concert agreements. As of December 31, 2016, these village and township banks had total assets of RMB7,419.6 million, total deposits of RMB5,214.3 million and total loans of RMB4,953.9 million among which, RMB4,275.2 million, RMB2,682.8 million and RMB3,095.1 million were from the five non-majority-owned village and township banks, respectively. For the years ended December 31, 2014, 2015 and 2016, our operating income attributable to these village and township banks amounted to RMB276.5 million, RMB378.9 million and RMB385.2 million, respectively, accounting for 2.9%, 3.4% and 3.3% of the Group's total operating income, respectively, among which, RMB147.5 million, RMB229.5 million and RMB222.5 million were generated from the non-majority-owned village and township banks. During the same periods, net profit of all village and township banks amounted to RMB64.0 million, RMB57.1 million, and RMB142.2 million, respectively, among which, RMB10.4 million, RMB1.7 million and RMB78.3 million, respectively, were attributable to the non-majority-owned village and township banks. As of December 31, 2016, all village and township banks had a total number of 50 outlets and 725 employees, including 28 outlets and 373 employees of the five non-majority-owned ones.

Besides acting-in-concert arrangements, the Bank also exercises its control over three out of five non-majority-owned village and township banks through control over their board compositions pursuant to relevant terms in their articles of associations, according to which, directors appointed by the Bank shall account for a majority of board members. As of the Latest Practicable Date, for the remaining two non-majority-owned village and township banks, directors appointed by the Bank accounted for a majority of board members in one bank and a minority in the other. In addition, as of the Latest Practicable Date, the Chairman of each of these five non-majority-owned village and township banks was appointed by the Bank. For details of the acting-in-concert arrangements, please see "Our History and Development Our Subsidiaries — Concert Party Arrangement for Certain Subsidiaries".

Our village and township banks provide local corporate and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, bill discounting, deposits from customers and fee- and commission-based products and services, such as settlement services, remittance services and bank card services. In furthering our Bank-wide strategic initiative of "Internetization and Ruralization of Banking Services (上網下鄉)", we intend to incorporate our village and township banks into our comprehensive service offering channels, to take advantages of their existing local market position and customer base in villages and townships, thereby allowing us to further penetrate our services and raise our brand awareness.

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### *Management of Our Village and Township Banks*

Each of our nine village and township banks is an independent legal entity regulated by the CBRC. In compliance with the requirements of the CBRC, we respect the independent operation of these village and township banks and strive to maintain their autonomous operation. Each of our village and township banks is different in terms of its geographic locations, target market, customer base, and product offerings, and they generally have smaller business scale and offer fewer products and services than our Bank. We believe an autonomous operation business model enables the village and township banks to leverage their local networks and customer relationships, and to become more responsive to changes in their markets.

Based on the foregoing, the Bank allows the nine village and township banks to make their own business decisions and maintain their own information technology, risk management, internal control and financial reporting systems. Although we do not directly participate in their business operations, we manage these village and township banks through providing overall strategic guidance, monitoring the implementation of operating policies and participating in their decision-making processes that are of significance in their development. In December 2014, we established a Village and Township Bank Management Department in our head office to better guide, assist and supervise them to achieve stable improvements in business and operational performance.

### *Financial Reporting and Information Technology*

Our village and township banks adopt separate information technology systems that operate independently from that of our Bank. Our village and township banks have their own information technology teams responsible for the daily management of their information technology system while we offer technological support and guidance to them. Although we have not incorporated the information technology systems of our village and township banks into our real-time financial reporting system, we are able to access and manage key data and information of our village and township banks on a timely basis.

We have promulgated the Zhongyuan Bank Village and Township Bank Information Reporting Policy, which sets forth detailed requirements for our village and township banks to periodically or *ad hoc* report to our Village and Township Management Department at the head office.

- *Weekly Report.* On every Monday morning, our village and township banks must report the loan and deposit data, including the balances of their loans and deposits as of the end of previous week ended on Sunday, as well as respective growth rates compared to the corresponding balances as of the beginning of the year, to our Village and Township Management Department in accordance with our standard template.
- *10-day Report.* On the first, the 11th and the 21st of every month, our village and township banks must report the balances of their loans, deposits (including deposits from corporate and retail customers, and interbank deposits) and total assets as of the specific dates, as well as respective growth rates compared to the corresponding balances as of the beginning of the year, to our Village and Township Management Department in accordance with our standard template.

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## BUSINESS

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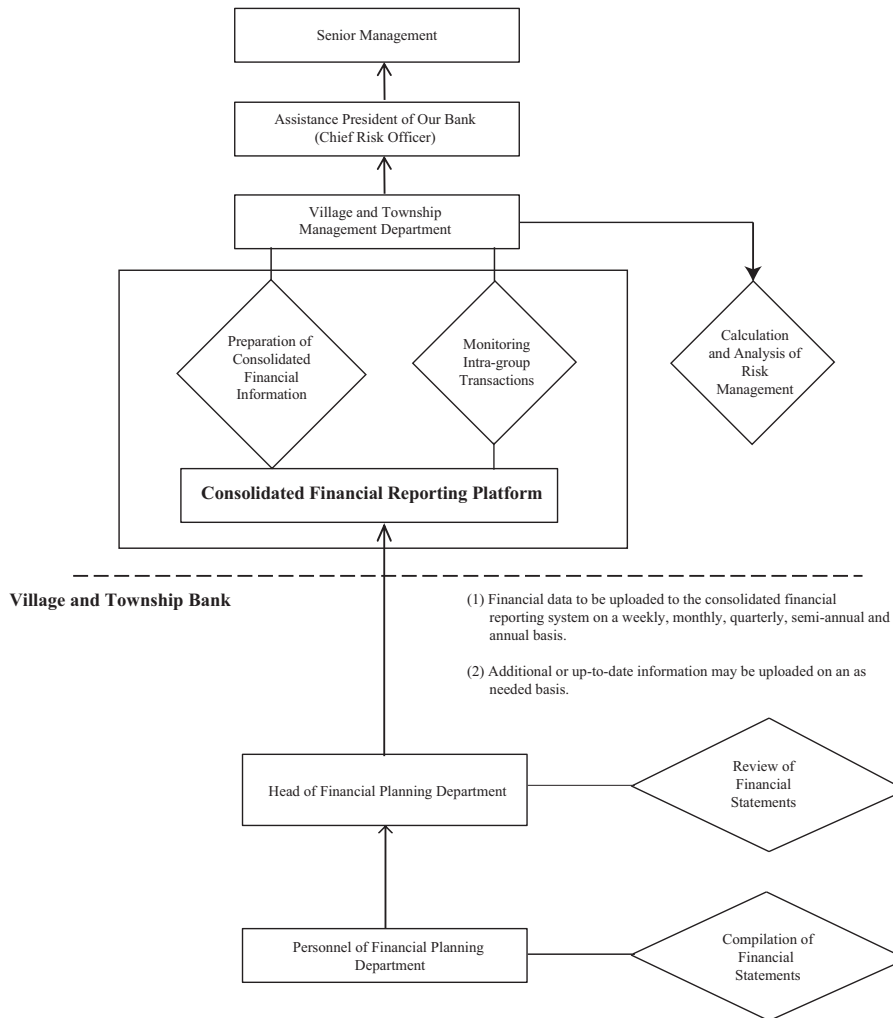
- *Monthly Report.* At the beginning of every month, our village and township banks must report the balances of their loans, deposits (including deposits from corporate and retail customers, and interbank deposits) and total assets as of the end of previous month, as well as respective growth rates compared to the corresponding balances as of the beginning of the year, certain financial indicators (including loan-to-deposit ratio, return on assets, liquidity ratio, cost-to-income ratio, non-performing loan ratio, allowance coverage ratio, capital adequacy ratio and loan concentration on a single customer), operating income from the beginning of the year and other information which may be requested by our Village and Township Management Department in accordance with our standard template.
- *Quarterly, Semi-annual and Annual Report.* The information required to be reported by our village and township banks include reports that are:
  - Financial-related, such as financial statements, operational analysis and reports of risk alert or regulatory indicators that are reported to the CBRC;
  - Auditing-related, such as special audit reports, annual internal control evaluation reports and internal audit working reports;
  - Risk-related, such as five-category loan classification reports, special credit inspection reports and annual compliance risk management reports;
  - Operation-related, such as annual operation and work plans (including annual financial budget), annual credit management policies and annual evaluation of the senior management;
  - Institution establishment-related, such as annual institution establishment plans; and
  - Human resource-related, such as annual recruiting plans, staff turnover lists and recruiting summaries.

In addition, we require our village and township banks to report urgent or important matters, such as material administrative penalties and operating losses of RMB5 million or more, on a timely basis.

## BUSINESS

The following chart sets forth the financial reporting process of the village and township banks to the Bank.

### The Bank



### *Compliance and Internal Control*

As a separate legal entity, each of our village and township banks is subject to inspections and reviews by the PRC regulatory authorities (including PBOC, CBRC, SAFE and SAT) and their respective local counterparts. Each of our village and township banks has its own compliance system and must individually satisfy the regulatory requirements. Each of our village and township banks utilizes its information technology system to monitor its key indicators to maintain their compliance with the regulatory requirements. For instance, each of our village and township banks monitors the total loan amount to every single borrower to make sure it is within the lending limit of 10% of its regulatory capital. During the Track Record Period, except for Qixian Zhongyuan County Bank as described below, none of our village and township banks exceeded the lending limit of 10% of its regulatory capital with respect to every single borrower. Our head office also closely monitors the major regulatory indicators that we shall follow, including but not limited to capital adequacy ratios, core liabilities ratio, liquidity gap ratio, loan concentration ratio, cost-to-income ratio, return on assets ratio, return on capital ratio, non-performing loan ratio and allowance coverage ratio of our village and township banks through reviewing their monthly financial reports.



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During the Track Record Period, some of our village and township banks did not meet the regulatory requirements for certain operating and profitability indicators:

- (i) *Allowance coverage ratios.* As of December 31, 2015, one of our nine village and township banks, Qixian Zhongyuan County Bank, did not meet the regulatory requirement for the allowance coverage ratio. As of December 31, 2015, the allowance coverage ratio for this non-compliant village and township bank was 107.33%, while the regulatory requirement was no less than 150%. This non-compliance was caused by negligence of the relevant employees, who did not make sufficient provisions. Qixian Zhongyuan County Bank rectified this non-compliance shortly after discovering the issue by making sufficient provisions.
- (ii) *Loan concentration on a single customer.* As of December 31, 2014, one of our nine village and township banks, Qixian Zhongyuan County Bank, did not meet the regulatory requirement for the loan concentration on a single customer. As of December 31, 2014, the loan concentration on a single customer for Qixian Zhongyuan County Bank was 22.5%, while the regulatory requirement was no more than 10%. As a result, our Qixian Zhongyuan County Bank was imposed a fine of RMB500,000 by Hebi Municipal Office of the CBRC. This non-compliance was caused by negligence of the relevant employees, who did not comply with the internal procedures before granting the loan. Qixian Zhongyuan County Bank rectified this non-compliance shortly after discovering the issue by recovering the relevant loans from that customer and by enhancing internal trainings.
- (iii) *Average loan balance per account.* As of December 31, 2014, the average loan balance per account of Xinxiang Xinxing County Bank did not meet the regulatory requirement. As of December 31, 2015, the average loan balance per account of Suiping Hengsheng County Bank did not meet the regulatory requirement. As of December 31, 2014 and 2015, the average loan balance per account for the non-compliant village and township banks was RMB2.3 million and RMB1.1 million, respectively, while the regulatory requirement was no more than RMB1.0 million. Such non-compliance was caused by the strong demand of capital by local customers of Xinxiang Xinxing County Bank and Suiping Hengsheng County Bank and their negligence to strictly monitor the average loan balance per account for certain customers. As of December 31, 2016, Xinxiang Xinxing County Bank and Suiping Hengsheng County Bank had rectified this non-compliance by adjusting their market positioning.
- (iv) *Ratio of loans by single account holders of RMB5 million or below.* As of December 31, 2014, 2015 and 2016, two, one and one, respectively, of our nine village and township banks did not meet the regulatory requirement for ratio of loans by single account holders of RMB5 million or below. As of December 31, 2014, 2015 and 2016, the ratio of loans by single account holders of RMB5 million or below for these non-compliant village and township banks ranged from 48.5% to 61.0%, while the regulatory requirement was no less than 70%. The non-compliance was caused by the deviation from the marketing positioning of the relevant village and township banks by granting large amount loans to their customers. We issued the Notice to Further Strengthen the Sinking of the Market Positioning of the Village and Township Banks (《關於進一步強化村鎮銀行市場定位加快業務下沉的通知》) to guide our village and township banks to grant their loans to small amount customers. The ratio of loans by single account holders of RMB5 million or below were in compliance with the regulatory requirements as of the Latest Practicable Date.

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- (v) *Asset profitability ratio.* For the years ended December 31, 2014, the asset profitability ratio of Lushi Defeng County Bank did not meet the regulatory requirement. For the years ended December 31, 2016, the asset profitability ratio of Xinxiang Xinxing County Bank did not meet the regulatory requirement. For the years ended December 31, 2014 and 2016, the asset profitability ratio of the village and township bank that did not meet the regulatory requirement was 0.77% and 0.15%, respectively, while the regulatory requirement was no less than 1%. This non-compliance was caused by the decreasing profitability of these village and township banks as a result of the general economic downturn and the decreases of in the interest rate margin. We have requested these village and township banks to promote innovative products to widen their income sources and to increase their profitability.
- (vi) *Capital profitability ratio.* For the years ended December 31, 2014, 2015 and 2016, the capital profitability ratio of three, two and two, respectively, of our nine village and township banks did not meet the regulatory requirement. For the year ended December 31, 2014, 2015 and 2016, the capital profitability ratio of the village and township banks that did not meet the regulatory requirement ranged from 0.46% to 10.96%, while the regulatory requirement was no less than 11%. This non-compliance was caused by the decreasing profitability of these village and township banks as a result of the general economic downturn and the decreases of in the interest rate margin. We have requested these village and township banks to promote innovative products to widen their income sources and to increase their profitability.
- (vii) *Cost-to-income ratio.* For the years ended December 31, 2014, 2015 and 2016, the cost-to-income ratio of five, seven and nine, respectively, of our nine village and township banks did not meet the regulatory requirement. For the year ended December 31, 2014, 2015 and 2016, the cost-to-income ratio of the village and township banks that did not meet the regulatory requirement ranged from 38.24% to 82.67%, while the regulatory requirement was no more than 35%. This non-compliance was caused by the high operating cost of these village and township banks as a result of their expansion of network and increases in employees to develop their business. We have requested these village and township banks to control their management cost and widen their income sources.

During the Track Record Period, except for the aforementioned administrative penalty of RMB500,000 imposed on our Qixian Zhongyuan County Bank, we did not receive any other administrative penalties as a result of the non-compliance with regulatory indicators. However, failure to meet the regulatory indicators may adversely impact the regulatory ratings of our village and township banks, which may potentially result in increased attention and inspections by the regulators on these banks, imposition of certain restrictions on their products and businesses, regulators' interviews with our directors, officers and supervisors, as well as regulators' demands for rectification actions.

In addition, as advised by our PRC legal advisor, King & Wood Mallesons, failure to meet the regulatory indicators may be viewed by the bank regulatory authorities as a violation of prudent operation rules, which, depending on the severity of the non-compliance, could lead to a number of regulatory actions including, for example, the imposition of a timeline for us to rectify the non-compliance, the imposition of a fine ranging from RMB200,000 to RMB500,000, suspension of certain business, revocation of business license, restrictions on dividend distributions and asset transfers, and disciplinary actions against the directors, officers or persons directly liable for such non-compliance.

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As advised by our PRC legal advisor, King & Wood Mallesons, in regard to the maximum penalty of non-compliance with the regulatory indicators of our village and township banks stated above, since (i) the relevant rules or guidance are unclear about how the regulatory authorities determine whether our village and township banks are “violating the prudent operation rules seriously” and (ii) the frequency of the regulatory authorities inspecting or penalizing our village and township banks for their compliance with regulatory indicators is unclear, it is unable to estimate the maximum penalty that our village and township banks may incur.

Assuming that the regulatory authorities penalize each of our village and township banks mentioned above for the non-compliance with each regulatory indicator mentioned above and that the maximum penalty amount of RMB500,000 was imposed by regulatory authorities on our village and township banks concerned for each non-compliance, the potential fine of all village and township banks due to non-compliance with the regulatory indicators will be RMB18.5 million, representing approximately 0.2% of our operating income for the year ended December 31, 2016.

As advised by King & Wood Mallesons, our PRC legal advisor, in regard to the potential non-monetary penalties of suspension of certain business and revocation of business license, since (i) these penalties are imposed only upon severe violation of the prudent operation rules or upon failure to rectify the non-compliance within the specified period according to the relevant laws; (ii) none of the aforementioned non-compliance with regulatory indicators was deemed to be a severe violation of the prudent operation rules by the relevant government authorities; (iii) none of our village and township banks failed to rectify their non-compliance within the specified period; and (iv) none of our village and township banks had been subject to the penalties of suspension of certain business or revocation of business license as a result of the non-compliance with regulatory indicators during the Track Record Period and up to the Latest Practicable Date, these non-monetary penalties are unlikely to happen.

Given that (i) our village and township banks represented only an insignificant financial contribution to the consolidated financial statements of our Bank; (ii) the maximum fines that may be imposed on our village and township banks represent a *de minimus* portion of our operating income; and (iii) there were no material impact as a result of the non-compliance by any of our village and township banks, we believe that the failure by certain village and township banks to meet the regulatory indicators during the Track Record Period does not have any material adverse effect on the business, operations and financial results of our Bank on a consolidated basis.

In addition to the measures to rectify the non-compliance described above, we have implemented the following monitoring and risk alert measures to enhance the compliance of village and township banks with the regulatory indicators:

- hold annual meetings and special meetings to update our management requirements and promulgate multiple policies relating to compliance of our village and township banks; guide our village and township banks in establishing or optimizing various compliance and internal control systems, including anti-money laundering systems, regulatory reporting systems and internal compliance management systems;
- dispatch senior management personnel to our village and township banks to improve the quality of their operation;
- monitor various regulatory indicators, such as the lending limit to any single borrower, through reviewing the monthly reports submitted by our village and township banks; issue compliance warnings in a timely manner or conduct meetings with the senior management of the relevant village and township banks to discuss possible measures to be taken to maintain compliance with regulatory requirements;

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- forward the operational and risk condition notices issued by the relevant local offices of the CBRC to our village and township banks that do not meet the regulatory indicators, and request such village and township banks to rectify the non-compliant issues and submit rectification reports;
- in the case of non-compliance, provide guidance to the relevant village and township banks on possible measures to rectify their non-compliance with regulatory requirements; require the relevant village and township banks to submit rectification plans and to rectify such non-compliance issues within a specified period; and hold the responsible persons accountable;
- develop a KPI mechanism that ties some of the regulatory indicators to the performance review of the senior management of the village and township banks;
- provide various compliance trainings to the staff at our village and township banks; and
- conduct regular and comprehensive internal audits in respect of their credit extension, operation, finance and general issues at least once a year and special audits as needed.

Each of the village and township banks has established its own anti-money laundering system and procedures, respectively, in strict compliance with the applicable rules and regulations promulgated by the PBoC. As an independent legal entity, each of the nine village and township banks is responsible for conducting its own anti-money laundering analysis, identifying and monitoring suspicious transactions and keeping record of large transactions based on its knowledge and available information of its customers.

However, the Bank does provide support and guidance to, and supervise when necessary, the implementation of anti-money laundering policies of each village and township banks, notwithstanding the above mentioned autonomous operation models. In particular, the Bank provides anti-money laundering trainings to related staff in village and township banks on routine basis to ensure they receive most updated knowledge and best practice measures. In addition, according to Zhongyuan Bank Village and Township Bank Information Reporting Policy, all village and township banks are required to report any material anti-money laundering non-compliance in their quarterly, semi-annual and annual reports to the Bank to allow timely review and guidance upon relevant issues.

### *Risk Management*

While each of our village and township banks performs its respective daily risk management work on an independent basis, we closely monitor the loan books and average loan accounts of our village and township banks. For irregular loans or loans that deviate from the market positioning of the village and township banks, such as extraordinary loan amounts, we will take measures to interfere the credit authorization. In respect of post-disbursement management, we classify loans extended by our village and township banks into five categories in accordance with the CBRC requirements on the five-category classification of loans. We also conduct dynamic monitoring of the default rates and default periods of our village and township banks and issue risk alerts when the quality of loans is at risk. From time to time, we randomly inspect the default rates and default periods of the loans of our village and township banks.

### **Consumer Finance Company**

We established Henan Zhongyuan Consumer Finance Co., Ltd. on December 29, 2016 to develop our consumer loan business. As at December 31, 2016, the Bank holds 65% of its equity interest and voting rights. Our management of our consumer finance company is largely in line with our approach to manage our village and township banks. We guide and supervise the material aspects of the operations, finance, investments, compliance and human resources of our consumer finance company.

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The annual budget and key performance indicators and risk management measures of our consumer finance company must be reported to and pre-approved by the Board of our Bank. Each quarter, the consumer finance company must submit a management report to our Bank addressing the management of its credit risk, operational risk, market risk, liquidity risk, etc.

### **Electronic Banking**

In March 2015, we started to provide electronic banking services. Currently, our electronic channels provide comprehensive financial services through online banking, mobile banking, telephone banking, self-service banking and WeChat banking. We place strong emphasis on building up electronic channels to improve our capabilities to provide services to our customers in an efficient and safe way. In recent years, to further enhance our capacity to deliver electronic banking services and to leverage the advantage of enterprises with strong internet business, we have established cooperative relationships with internet companies and China UnionPay to further increase our brand awareness and thus enable us to closely connect with potential customers.

As of December 31, 2016, we had 368,021 online banking customers and 1,307,754 personal mobile banking customers. For the year ended December 31, 2016, corporate banking customer transactions and retail banking customer transactions processed through our electronic banking grew by 63.4% and 64.7%, respectively, as compared to 2015, and accounted for 78.1% and 82.9%, respectively, of the total number of corporate banking transactions and retail banking transactions for the same period.

### **Online Banking**

Our online banking platform, accessible via our website (<http://www.zybank.com.cn>), offers a broad range of financial products and services to both corporate banking and retail banking customers. For corporate banking customers, we provide various services, including account inquiry and management, payment and settlement, and money transfer and remittance. As for our retail banking customers, we offer account inquiry and management, money transfer and remittances, wealth management products and personal loans. As of December 31, 2016, we had a total number of 368,021 online banking customers, including 56,602 corporate banking customers and 311,419 retail banking customers. As of December 31, 2016, an aggregate number of 6,275,605 transactions were processed through our online banking platform with an aggregate transaction volume of RMB842,893.9 million.

### **Mobile Banking**

We commenced our mobile banking services in March 2015. Through our mobile banking app, we provide a wide range of services, including account inquiries and management, money transfer, purchase of personal wealth management products, application of personal loans, online hospital self-register, and payment services for utilities, such as gas, heating, telephone bills and cable TV fees. In recent years, in response to market demand for conducting secure online transactions through utilizing traditional cellphone telecommunication services, we provide our customers with a short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, payment of fees and risk alerts.

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As of December 31, 2016, the accumulative number of our mobile banking users amounted to approximately 1.3 million. For the year ended December 31, 2016, approximately 12.5 million business transactions with a total transaction volume of RMB10,234.7 million were processed through our mobile banking.

### *Telephone Banking*

We introduced our telephone banking services in March 2015. We offer telephone banking services to both retail and corporate banking customers, including both automated voice services and teller-operated services through our 24-hour nationwide customer service hotline “95186”. Our services include account inquiry and management, emergency reporting for lost or stolen cards, money transfer, bill payment and customer complaint. As of December 31, 2016, we had a total of approximately 114,157 contracted telephone banking customers, including 113,962 retail banking customers and 195 corporate banking customers. As of the same date, we had a total number of 58 customer service staffs.

### *Self-Service Banking*

Our self-service banking facilities include ATMs, cash recycling machines, inquiry and payment machines, VTMs and cards issuance machines. These facilities can provide customers with convenient banking services and at the same time allow us to reduce operating costs. Our self-service banking facilities are placed in regions where our outlets are located, and services provide through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, payment of public utilities bills, purchase of wealth management products and other services. As of December 31, 2016, we had a total number of 2,386 self-service banking facilities throughout Henan Province.

### *WeChat Banking*

We introduced WeChat public platform on mobile phones to our retail banking customers to further diversify our financial services channels. By following our WeChat official account and signing up for our WeChat banking services, our customers are able to receive new products and/or services introduction, promotion, nearby outlets locating, account inquiry, purchase of wealth management products, “Yong Xu Dai (永續貸)” online application, fee payment, online hospital self-register and DIY card. WeChat has also become one of our significant channels in delivering value-added services for our retail banking customers. As of December 31, 2016, we had a total number of 1,138,468 WeChat official account subscriptions.

## INFORMATION TECHNOLOGY

### **Overview**

We believe information technology capacity is of vital importance for us to establish and maintain our competitive advantages and future growth in the increasingly competitive banking industry.

We have been establishing an advanced information technology system pursuant to our development strategy. As of the Latest Practicable Date, we had established a fully integrated information technology system covering key functions of the entire Bank, including channel accessing, customer service, product service, management’s decision-making and basic application. In addition, we utilize advanced technologies to ensure flexibility, expandability and security of our information technology system. In particular, we have made the following break-through

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achievements in terms of application, development and upgrade of financial technology covering operation efficiency improvement, introduction of retail loan products, payment schemes and market provisioning during the Track Record Period:

Assisted by one of the largest telecommunications equipment manufacturers in the world, we built an integrated big-data processing platform based on Hadoop architecture. Such platform lays an advanced technical foundation which allows us to efficiently collect, store, analyze and process a vast amount of data gathered within and outside of our Bank. Capitalizing on our big-data processing platform, we have substantially enhanced our capacity in risk identification and evaluation, providing tailor-made customer services and sales with improved efficiency. As of the Latest Practicable Date, we have introduced our big-data processing capacity into many key functional systems of our Bank, including accounting, retail banking services and performance evaluation. For example, we successfully launched “Yong Xu Dai (永續貸)” and “Miao Dai (秒貸)” which utilized financial technology in big-data and mobile internet by analyzing customers’ consumption behavior patterns and credit-worthiness, and made it possible for customers to apply, receive and repay loans online. For details, please see “—Our Principal Business Activities—Retail Banking—Personal Loans—Personal Consumption Loans”. In addition, we introduced cloud-computing technologies to improve the flexibility and expandability of our information technology system in terms of resources allocation and function expansion. Furthermore, we utilized biometrics authentication technologies (including fingerprint technology and face recognition technology) to improve our risk management capacity, business operation efficiency and client experience. Moreover, the financial technology we implanted in other products and services has transformed traditional payment methods and helped us achieve cashless models for retail customers, including “Medical Pass”, “Bus Pass” and “School Pass”. Furthermore, we have based our marketing platform on the emerging mobile banking and WeChat banking, where app users and subscribers could easily get accesses to our latest updates of product innovations and banking services. For details, please see “—Distribution Network” and “—Marketing”.

In line with our information technology strategy, we invested and actively participated in pioneering research and development programs in order to keep up with the pace of the latest technology trend in the PRC banking industry. In December 2016, we became a member of “Financial Blockchain Shenzhen Consortium (金鏈盟)” with the aim to research and explore methods of applying blockchain technology into daily banking business operations, to improve the convenience and security of financial services. In addition, we established our Innovative Research and Development Center in Beijing gaining access to local talents and intelligence enabling us to quickly capture the latest trends in financial technology.

For the years ended December 31, 2014, 2015 and 2016, our capital expenditures on information technology and related equipment were approximately RMB66.9 million, RMB106.1 million and RMB187.9 million, respectively.

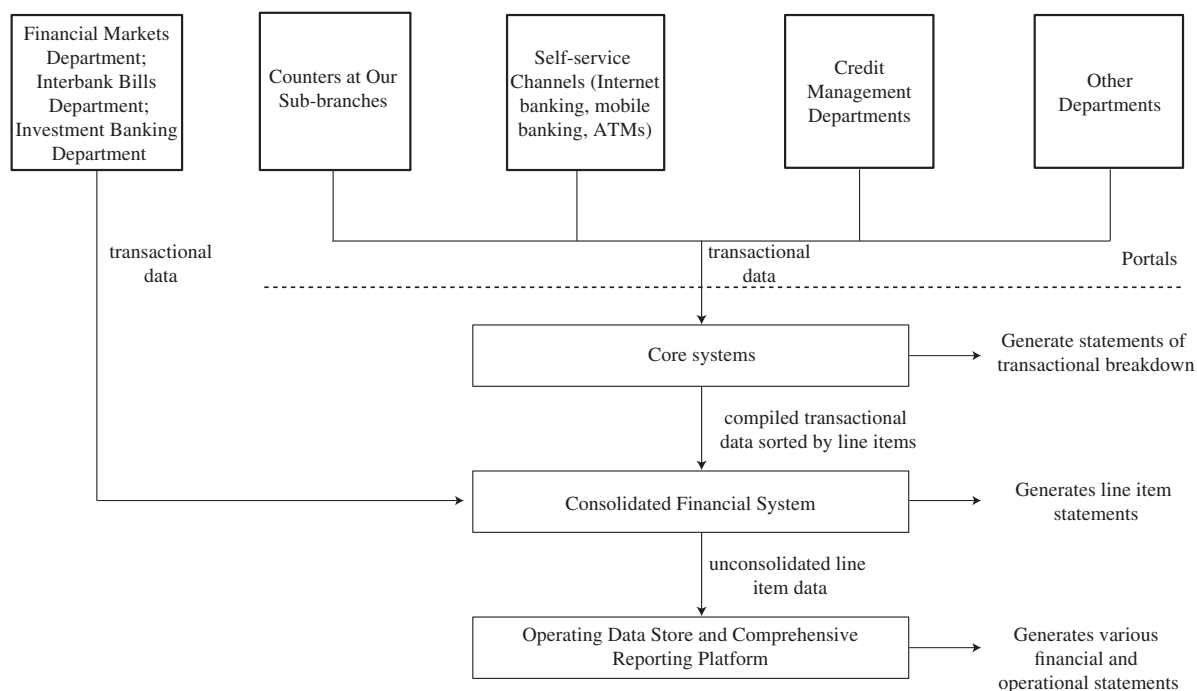
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## BUSINESS

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### Real-time Financial Reporting System

We have rolled out an integrated financial reporting system covering our head office, branches and sub-branches in late 2014 and since then we have been continuously upgrading it. The diagram below sets forth the mechanism of our financial reporting system in general.



We have set up portals connected to the “core systems” in each of our sub-branches and all of our business departments at head office and branches. We require our counters at sub-branches, credit management departments and other relevant departments to input relevant transactional information, such as the account information, the transactional types, the transactional amount and the counter parties’ information, into these core systems. The self-service portals, such as the Internet banking, mobile banking and ATMs, also transmit the relevant information to the core systems automatically.

The core systems transmit the compiled transactional data to the Consolidated Financial System (the “CFS”) around 2:00 AM each day. In addition, our Financial Markets Department, Interbank Bills Department and Investment Banking Department input transactional data into the CFS. The CFS categorizes the data by different accounting line items and generates line item statements every day for our Financial Planning Department at our head office to review.

The CFS system transmits the transactional data to the Operational Data Store and Comprehensive Reporting Platform (the “ODS Platform”), which is a comprehensive financial and operational reporting platform. The ODS Platform is connected to many sub-systems and allows the relevant departments at our head office to generate various types of financial and operational statements based on their needs. Our head office actively monitors the financial condition of our branches and sub-branches by analyzing the data in various types of financial and operational statements.



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### **Information Technology Management and Team**

We have set up an Information Technology Management Committee headed by our Chief Information Officer (also the Bank's vice president), which consists of general managers from Information Technology Department, Accounting Operation Department, Planning and Finance Department, Risk Management Department, Auditing Department and Compliance Department. The Committee reports to our CIO and is in charge of reviewing major information technology construction plans, supervising the implementation of such plans and solving cross-department issues that may arise during the process of system development, launch and maintenance.

As of December 31, 2016, our bank-wide professional team was composed of 276 information technology experts and professional staff, including 167 employees at our head office and 109 employees in our branches. We have established our information technology system with reference to industry best-practice and strict regulatory requirements. Currently, we have established six functional units supervised by Information Technology Department at our head office, namely, application development center, quality testing center, operation management center, information security center, center for management of demands and project and comprehensive management center, which, working together, cover all key aspects of information technology functions of our Bank.

In addition, we have established comprehensive implementation rules, procedures and regulations in relation to information technology management, covering structure establishment and management of demands, quality testings, emergency situations and risks. Furthermore, we have established relevant supporting tools and platforms to ensure we could manage our information technology related work in a standardized and efficient way.

### **Risk Management**

We monitor and manage information technology related risks through our integrated and comprehensive risk management system and have established a "three-line defense" managerial structure for information security, consisting of information technology department, risk management department and audit department in our head office, which are supported by corresponding departments in branches and sub-branches. In addition, we maintain security of our information system such as cyber security, application security, data security and terminal security, through various technologies, including encryption, anti-virus software, firewall and malicious code protection and we continuously update such technologies to enhance our information security management. Furthermore, we conduct regular information security training for our employees to enhance their awareness on information security and improve the implementation of our information technology risk management. Please see "Risk Management — Information Technology Risk Management".

Our information technology infrastructure and information system are critical to our effective management and business development. Therefore, we will continue to maintain and upgrade our core business systems, accelerate the construction of our channel system, management system and decision-making system, and thus further enhance our risk control measures in respect of information technology and optimize our emergency management system, thereby provide technological support for our business development and operations.

### **Information Technology System**

We have incorporated information technology risk into the overall risk management framework of the Bank for management and control. We maintain security of our information system which covers cyber security, application security, data security and terminal security through various technologies including encryption, anti-virus software, firewall and malicious code protection. We will

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continuously upgrade such technologies to enhance our information security management. Furthermore, we conducted regular information security training for our employees to enhance their awareness on information security and improve the implementation of our information technology risk management.

We attach great importance in the adoption of various advanced technical means to ensure the security of information technology systems and business operations in response to various risks in respect of bank operations arising from the advancement of network technology. To enhance the reliability of our operations, we have established a same-city backup center for disaster recovery which is located outside our head office premises, as well as an offsite backup center for disaster recovery to support business continuity in the event of major disruption or failure of our main data center. We have completed the “two locations, three centers” disaster recovery system. In 2016, given our good practices in providing technology security support for our customers, we were granted the “Golden Reputation for Science and Technology Security Award (金口碑金融科技安全獎)” by the *Modern Bankers* and Hongru Financial Education Foundation (鴻儒金融教育基金會). For details regarding the information technology risk management, please see “Risk Management — Information Technology Risk Management”.

### COMPETITION

The banking industry in China has become increasingly competitive. We primarily compete with city commercial banks, nationwide joint-stock commercial banks, five state-owned commercial banks and Postal Savings Bank of China Co., Ltd. in Henan Province. Please see “Industry Overview — Competitive Landscape”. We also face competition from other banking institutions, including rural credit cooperatives, as well as non-banking financial institutions, such as securities firms, fund management companies and insurance companies. The principal competitive factors in the banking industry include capital strength, risk management, asset quality, reach of distribution network and customer base, brand recognition and scope, as well as quality and pricing of products and services.

Competition between us and foreign financial institutions may be intensified in the future. In particular, the lifting of various restrictions on foreign financial institutions conducting business in the PRC may cause us to lose certain existing competitive advantages over foreign financial institutions in the banking market of Henan Province and Central China. We expect to see greater competition from foreign financial institutions in the future. The intensifying competition may have adverse effects on our future business and results of operations. Please see “Risk Factors — Risks Relating to the PRC Banking Industry — We face increasingly intensive competition in China’s banking industry”.

In response to the aforementioned competitive environment, we intend to adopt measures such as expanding our business and service network, reinforcing the foundation of traditional businesses, innovating financial products and services and exploring diversified business development, so that we can continue to compete effectively in the commercial banking industry.

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### EMPLOYEES

As of December 31, 2016, we had 12,488 employees and our employees were all located in China which includes 914 employees at our head office and 11,047 employees at our branches and sub-branches and 527 employees at our village and township banks. The following table sets forth the number of full-time employees by function as of December 31, 2016.

	<u>As of December 31, 2016</u>	
	Number of employees	% of total
Corporate banking.....	1,930	15.5%
Retail banking .....	3,137	25.1%
Financial markets business.....	169	1.4%
Finance and accounting.....	1,077	8.6%
Risk management, internal audit and legal and compliance .....	879	7.0%
Information technology .....	276	2.2%
Management.....	804	6.4%
Teller .....	3,169	25.4%
Others.....	1,047	8.4%
<b>Total.....</b>	<b>12,488</b>	<b>100.0%</b>

The following table sets forth the total number of our employees by age as of December 31, 2016.

	<u>As of December 31, 2016</u>	
	Number of employees	% of total
Aged 31 or below .....	5,158	41.3%
Aged 31-40.....	3,068	24.6%
Aged 41-50.....	3,318	25.1%
Aged over 50.....	944	7.6%
<b>Total.....</b>	<b>12,488</b>	<b>100.0%</b>

The following table sets forth the total number of our employees by education level as of December 31, 2016.

	<u>As of December 31, 2016</u>	
	Number of employees	% of total
Master degree and above.....	1,230	9.8%
Bachelor degree .....	7,010	56.1%
College/Associate Degree .....	3,147	25.2%
Others.....	1,101	8.8%
<b>Total.....</b>	<b>12,488</b>	<b>100.0%</b>

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Believing that our sustainable growth depends largely on the capability and dedication of our employees, we have been investing significant resources in training our employees. We offer a variety of training programs tailored to our employees in different levels and stages in line with our business development strategy. For instance, we designed “Piloting Program (領航計劃)” for the Bank’s senior management teams offering training courses themed in global and domestic macro-economy and management skills training, so that they could apply the cutting-edge management skills with practicable value to our internal daily management. Besides this, our comprehensive training system comprises “Voyaging Program (遠航計劃)” designed for presidents of all our sub-branches, offering training courses themed in internal management and team building; “Sailing Program (啟航計劃)” designed for newly recruited management trainees and fresh graduates, offering both theoretical and practical training courses themed in banking and accounting knowledge to help them get prepared for daily work in the Bank; as well as “Gold-digging Program (掘金計劃)” and “Spark Program (星火計劃)” designed to focus on cultivating promising employees in the Bank for future development.

We contribute to our employees’ social insurance and other employee benefits, such as pension insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance and housing fund in accordance with the applicable PRC laws, rules and regulations. Our labor union represents the interests of the employees and works closely with our management on labor-related issues.

During the Track Record Period and as of the Latest Practicable Date, we had not experienced any strikes or other material labor disputes that have affected our operations and we believe that the relationship between our management and the labor union has been satisfactory.

In addition to the employees with whom we have entered into employment contracts, we have also engaged 667 independent contracted workers through third-party human resources agencies as of the Latest Practicable Date. These independent contracted workers are not our employees and generally hold non-key positions at the Bank. According to the PRC Labor Contract Law, there is no labor contract relationship between the independent contracted workers and us, and the independent contracted workers enter into labor contracts with the relevant human resources agencies. We are not obligated to make social security contributions for them, but we make agreed salary and other related payments to these agencies, who shall in turn, make salary payments to the independent contracted workers, social security contributions and other related payments to the government entities. According to PRC laws, if the third party human resources agencies fail to pay remuneration to the independent contracted workers, we may also be held jointly liable for claims brought by the independent contracted workers.

## PROPERTIES

Our head office is located at Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province, PRC. As of the Latest Practicable Date, we owned 616 properties with an aggregate GFA of approximately 626,280.1 square meters; owned the land use rights of four parcels of land with an aggregate area of approximately 73,258.2 square meters; leased 555 properties with an aggregate GFA of approximately 237,936.3 square meters; owned seven properties under construction with an aggregate GFA of approximately 428,117.2 square meters in China.

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### Owned Properties

#### *Properties*

As of the Latest Practicable Date, we owned 616 properties with an aggregate GFA of approximately 626,280.1 square meters, which were primarily used for our business and offices, among which:

1. For 220 properties with an aggregate GFA of approximately 289,374.5 square meters (accounting for 46.21% of the aggregate GFA of our owned properties), we had obtained the relevant building ownership certificates for these properties and the state-owned land use right certificates for the land occupied by these properties through grant or lease (the “**land use right certificates**”).

As advised by King & Wood Mallesons, our PRC legal advisor, we have legitimate ownership right of such properties and the land use right for the land occupied by such properties, and we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties according to applicable laws.

2. For 50 properties with an aggregate GFA of approximately 54,659.6 square meters (accounting for 8.73% of the aggregate GFA of our owned properties), we had obtained the relevant building ownership certificates and land use right certificates, which we obtained through allocation.

As advised by King & Wood Mallesons, our PRC legal advisor, (i) pursuant to the PRC Property Law and the PRC Urban Real Estate Administrative Law, as we have obtained the building ownership certificates for these properties, there are no material legal obstacles for us to occupy or use such properties; (ii) for properties erected in land allocated to us, we should obtain the land use right certificates through transferring and leasing before we are allowed to transfer, lease or mortgage such properties. If such properties can no longer be used, we believe that we will be able to find comparable properties as alternatives in corresponding areas, and such relocation will not have material adverse effects on our financial condition or results of operations.

3. For 180 properties with an aggregate GFA of approximately 88,313.8 square meters (accounting for 14.10% of the aggregate GFA of our owned properties), we had obtained the building ownership certificates, but had not obtained the land use right certificates for the land on which such building were erected. Among them, we had not obtained the land use right certificates for the land occupied by 21 properties with an aggregate GFA of approximately 9,689.1 square meters (accounting for 1.55% of the aggregate GFA of the owned properties of our Bank and subsidiaries) because the relevant real estate developers had not been able to obtain the subdivision of the land use right certificates. We had not obtained the land use right certificates for the land occupied by the 159 properties with an aggregate GFA of approximately 78,624.6 square meters (accounting for 12.55% of the aggregate GFA of the owned properties of our Bank and subsidiaries) because of historical issues, such as inadequate permits relating to property construction by the relevant real estate developers and/or non-cooperation from the original property owners.

As advised by King & Wood Mallesons, our PRC legal advisor, for the above 180 properties (i) as we have obtained the relevant building ownership certificates, pursuant to the PRC Property Law and the PRC Urban Real Estate Administrative Law, there are no material legal obstacles for us to occupy or use such properties; (ii) however, before obtaining the land use right certificates for the land on which such building were erected, we may be restricted from transferring, mortgaging or otherwise disposing of such properties; and (iii)

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in the event that the land on which those properties were erected was auctioned or disposed of due to reasons of the land use right holders, the buildings owned by us will also be required to be auctioned or disposed of in conjunction with such land. As a result, we may lose the ownership of such buildings in cases of auctions or disposal of the land on which such buildings are erected, but we will be entitled to the proceeds from the auctions or disposal of those buildings. Considering that such properties are located in different areas, the possibility of all or substantially all of the land and properties being auctioned or disposed of simultaneously is relatively low. In any event if we have to relocate due to the certificate issues of the land, we believe we are able to find comparable properties as alternatives in corresponding areas, and such relocation will not have material adverse effects on our financial condition or results of operations.

4. For 12 properties with an aggregate GFA of approximately 39,554.4 square meters (accounting for 6.32% of the aggregate GFA of our owned properties), we had been granted the land use right certificates, but we had not obtained the building ownership certificates. As advised by King & Wood Mallesons, our PRC legal advisor, we may not legally occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties before obtaining the relevant building ownership certificates for these properties.
5. For two properties with an aggregate GFA of approximately 144.0 square meters (accounting for 0.02% of the aggregate GFA of our owned properties), we had obtained the land use right certificates through allocation, but we have not obtained the building ownership certificates. As advised by King & Wood Mallesons, our PRC legal advisor, we may not legally occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties before we obtain the relevant building ownership certificates and land use right certificates for these properties through grant or lease.
6. For three properties with an aggregate GFA of approximately 4,336.4 square meters, (accounting for 0.69% of the aggregate GFA of our owned properties), we have neither obtained the building ownership certificates nor land use right certificates for these properties. We had entered into property purchase agreements with the relevant real estate developers in respect of such properties. However, we could not complete the filing procedures for these agreements as the relevant property developers have not yet obtained the legally valid pre-sale permits for these properties.

As advised by King & Wood Mallesons, our PRC legal advisor, according to Interpretation of the Supreme People's Court on the Relevant Issues concerning the Application of Law for Trying Cases on Dispute over Contract for the Sale of Commodity Houses (Fa Shi [2003] No. 7) (《最高人民法院關於審理商品房買賣合同糾紛案件適用法律若干問題的解釋》(法釋[2003]7號)), should a seller had not obtain the relevant pre-sale permit before entering into a pre-sale contract of commercial housing with a buyer, this transaction shall be deemed invalid. However, should the seller obtains his/her pre-sale permit before a claim is brought against him/her, the contract will still be deemed valid despite not having such permit while signing the contract. There is a legal risk that these property purchase agreements might be deemed invalid, thus affecting our eligibility to obtain the relevant building ownership certificates.

We believe that if a third party right holder acquires the building ownership certificates for these properties or land use certificates for the land occupied by these properties through bringing a claim or legal proceeding, resulting in our relocation, we will be able to find comparable properties as alternatives with full title certificates or legal leases to continue our business, and such relocation will not have material adverse effects on our results of operations or financial condition.

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7. For 29 properties with an aggregate GFA of approximately 15,110.7 square meters (accounting for 2.41% of the aggregate GFA of our owned properties) which were newly purchased and occupied by us, we had not obtained the relevant building ownership certificates for these properties or land use right certificates for the land occupied by such properties. We had entered into property purchase agreements with the relevant real estate developers of these properties, who had obtained relevant valid pre-sale permits.

As advised by King & Wood Mallesons, our PRC legal advisor, the sellers of these 40 properties have obtained the relevant legally valid pre-sale permits. We have paid the purchase prices for these properties in accordance with the relevant property purchase agreements with the relevant third-parties, and such agreements were entered into in full compliance with the applicable PRC laws.

8. For 120 properties with an aggregate GFA of approximately 134,786.8 square meters (accounting for approximately 21.52% of the aggregate GFA of our owned properties), we had not yet obtained the relevant building ownership certificates for these properties or land use right certificates for the land occupied by such properties due to historical reasons, such as lack of documents.

As advised by King & Wood Mallesons, our PRC legal advisor, we may not legally occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties and land until we obtain the relevant building ownership certificates for these properties and land use right certificates for the land occupied by such properties through grant or lease. In any event that any third-party right holder obtains the building ownership rights for these properties or the land use rights of the land on which such buildings were erected through bringing a claim or legal proceeding, and we are required to relocate, we will be able to find comparable properties as alternatives with full title certificates or legal leases to continue our operations, and such relocation will not have material adverse effect on our results of operations and financial condition.

During the Track Record Period and as of the Latest Practicable Date, the defective legal titles of the above-mentioned properties did not have any material adverse effect on our business operations. We will make efforts to obtain the building ownership certificates and the land use right certificates. Our Directors are of the view that such defective properties will not, individually or in aggregate, have any material adverse effect on our business. If necessary, we believe that we will be able to find comparable properties as alternatives at relatively low costs, and such relocation will not have any material adverse effect on our financial condition or our results of operations.

### *Land Use Rights*

As of the Latest Practicable Date, we owned the land use rights of four parcels of land with an aggregate area of approximately 73,258.2 square meters, and we had been granted the land use right certificates. As advised by King & Wood Mallesons, our PRC legal advisor, we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such land within the prescribed terms.

### **Leased Properties**

As of December 31, 2016, we leased 555 properties with an aggregate GFA of approximately 237,936.3 square meters, which were primarily used for our business and office, among which:

1. For 154 properties with an aggregate GFA of approximately 70,570.0 square meters, the lessors had obtained the relevant building ownership certificates or the consent letter from the owners to authorize the lessors to lease or sublease the specific properties. As advised by King & Wood Mallesons, our PRC legal advisor, these leases are legal and valid.

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2. For 401 properties with an aggregate GFA of approximately 167,366.3 square meters, the lessors had not obtained the relevant building ownership certificates or the consent letter from the owners to authorize the lessors to lease or sublease the specific properties. For 128 properties with an aggregate GFA of approximately 43,898.9 square meters, lessors have issued written undertakings stating that the lessors are entitled to lease such properties, and the lessors shall indemnify the lessees if the lessees suffer losses from the defective titles of such properties.

As advised by King & Wood Mallesons, our PRC legal advisor, the lessors are not entitled to lease the properties if they do not have the ownership of such properties or the consent from the properties' owners authorizing the leasing. If any third party raises claims against the ownership or leasing rights of such properties, our leasing of such properties may be affected, but we are able to seek indemnification from the lessors based on their written undertakings. In addition, in certain circumstances where the lessors have entered into multiple lease agreements for one property, we may be considered as a legitimate lessee pursuant to relevant judicial interpretations of applicable PRC laws. We believe that in the event that we are not able to continue to use such properties due to the defective titles of such properties, we believe that we will be able to find comparable properties as alternatives at relatively low costs, and such relocation will not have material adverse effect on our financial condition or our results of operations.

As of December 31, 2016, we have entered into 500 lease agreements with third-parties, as of the Latest Practicable Date, 158 lease agreements have been registered with relevant housing administrative authorities. Among 67 of the 500 lease agreements have issued written undertakings confirming that failure of completing the lease registration was not due to our faults, and the lessors shall indemnify us if we suffer any losses or administrative penalties for the defective titles of such properties.

As advised by King & Wood Mallesons, our PRC legal advisor, pursuant to relevant PRC laws, failure to complete the lease registration will not affect the legal effectiveness of the lease agreements. However, the housing administrative authorities may require the parties to the lease agreements to complete lease registration within a prescribed period of time and the failure to do so may subject the parties to the lease agreements to fines from RMB1,000 to RMB10,000. As a result, we are entitled to use these properties in accordance with the provision of the relevant property leasing agreements, but if we fail to complete the lease registration in accordance to the requirements of the housing administrative authorities, we may be subject to fines. In the past three years, we were not subject to penalties by the relevant housing administrative authorities for non-registration of lease agreements. If we are subject to such penalties, we can ask for indemnification from lessors based on their written undertakings. In addition, we believe that if the defective legal titles to such properties or the non-registration of the lease agreements prevent us from continuing the lease of any properties so the affected branches or sub-branches need to relocate, the affected branches or sub-branches will be able to find comparable and duly leased properties as alternatives in relevant areas, and such relocation will not have any material adverse effects on our financial condition or results of operations, or this Global Offering.

### **Properties under Construction**

As of the Latest Practicable Date, we had seven properties under construction with an aggregate GFA of approximately 428,117.2 square meters, and had obtained state-owned land use right certificates for the land occupied by these properties under construction. For one of our properties under construction in Xinyang with an aggregate GFA of approximately 12,582 square meters, we did not obtain the construction project planning permit and the construction project constructing permit



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in accordance with our construction progress. As of the Latest Practicable Date, we were in the progress of applying for such permits. The relevant government authorities in Xinyang have confirmed that no administrative penalties will be imposed to us for the aforementioned defects and that they will issue the relevant permits to us in due course.

Except for the abovementioned properties, we have obtained the relevant approvals or permits required for the construction of these properties in accordance with the construction progress. We believe that there will be no material legal impediments to obtain relevant building ownership certificates upon our completion of the completion and acceptance procedures for those properties under construction.

For the aforementioned defective owned properties, leased properties and properties under construction, we have obtained from the Henan Government a confirmation letter dated March 14, 2017, which confirms that our land and buildings are generally in compliance with applicable laws and regulations, and that there are no material disputes or potential material disputes involving our land and buildings. The confirmation letter also confirms that the Henan Government will urge relevant government departments to coordinate and solve future disputes or other problems if any arising from the historical changes of ownership.

### Properties to be Acquired

As of the Latest Practicable Date, we had entered into contracts to purchase 10 properties with an aggregate GFA of 5,536.0 square meters. For all of these properties, we had entered into property purchase agreements with real estate developers, which had already obtained the relevant legally effective pre-sale permits.

As advised by King & Wood Mallesons, our PRC legal advisor, the above property purchase agreements we entered into with real estate developers were not in violation of relevant provisions under PRC laws.


### Property Valuation

As of December 31, 2016, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by section 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

## PERMITS, LICENSES AND QUALIFICATIONS

Our Directors, as advised by our PRC legal advisors, confirm that, as of the Latest Practicable Date, we had obtained all material licenses, approvals, permits and qualifications from relevant PRC authorities for our operations in China.

## INTELLECTUAL PROPERTY RIGHTS

We conduct business under the brand names and logos of “中原銀行”, “ 中原銀行” and some other brand names and logos. Our intellectual property rights mainly include trademarks, copyrights and Internet domain names. As of December 31, 2016, we held 82 registered trademarks in the PRC, one copyright and 69 Internet domain names. We also submitted application for three trademark

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registrations in Hong Kong. With respect to details of our intellectual property rights, please see “Appendix VII — Statutory and General Information”. We have not been subject to any material infringement of our intellectual properties rights or allegations of infringements by third parties during the Track Record Period that have material adverse effect on our business, asset quality, financial condition and results of operations.

With the intention of applying for the registration of certain trademarks comprising “中原銀行” and its variations in Hong Kong, covering the services of financial services, monetary affairs, securities brokerage, wealth management, asset management, fund management, investment advisory and capital investment, we sought the opinion of the Hong Kong Trade Marks Registry (the “**Trade Marks Registry**”) on the registrability of such marks. The Trade Marks Registry was of the view that Certain trade marks were registered in the names of companies in the Centaline (中原) group of companies. There is no guarantee that, Centaline will definitely not make any claim against us. Further, Centaline may oppose our applications for certain trademarks containing the words “中原”. As pointed out above, even with a valid registration, the risk of a claim for passing-off remains at least at the beginning of the business being carried on in this territory. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operations. For further details, please see “Risk Factors — The use of our Chinese name in this prospectus and the use of it in the course of trade or business in Hong Kong, if any, may be challenged due to potential allegations of trademark infringement and passing off”.

### LEGAL AND ADMINISTRATIVE PROCEEDINGS

#### Legal Proceedings

We are involved in various claims and lawsuits in the ordinary course of our business from time to time. As of the Latest Practicable Date, we were the plaintiffs or applicants of arbitration in 72 pending litigations and arbitrations, each with a claim amount of principal exceeding RMB10.0 million, and the aggregate amount of the claimed principal in such legal proceedings was approximately RMB2,079.1 million. Among these litigations and arbitrations, 63 involve enforcement claims initiated by us to recover payments on our loans with an aggregate amount of claimed principal of RMB1,833.4 million, including (i) three case with a claim amount of principal exceeding RMB100.0 million, (ii) four cases each with a claim amount of principal ranging from RMB50.0 million to RMB100.0 million, and (iii) 56 cases each with a claim amount of principal below RMB50.0 million. The remaining nine cases with an aggregate claimed principal totaling RMB245.7 million involve disputes in relation to enforcement dissent, unjust enrichment, tort, lease agreements, construction contracts and certain transactions in our ordinary course of business including trust plans and repurchase of bank acceptance bills. As of the Latest Practicable Date, among these nine cases, three were pending for judgments by courts of first instance, two were pending for judgments by appellate courts, two were in the process of enforcement based on judgments in favor of us, one was waiting for the first hearing of arbitration tribunal to be held, and one was suspended pursuant to applicable laws. As of the Latest Practicable Date, we were defendants in 14 litigations, each with a claim amount of principal exceeding RMB10.0 million, and an aggregate amount of the claimed principal was RMB455.2 million.

We extended the underlying loans of relevant legal proceedings in which we served as the plaintiffs or applicants of arbitration pursuant to our credit approval procedures and conducted post-disbursement inspection and management towards these loans in compliance with our risk management policies. However, the quality of certain of the said loans is subject to risks beyond our control. In particular, certain of such underlying loans in relevant legal proceedings experienced deterioration in quality primarily due to operational difficulties and deteriorated repayment abilities of relevant customers, which mainly resulted from the slowdown of PRC economy in recent years. In

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line with our internal risk management policies and measures, we resorted to legal proceedings for loans recovery from time to time in our ordinary course of business. As a result, we do not consider the pending legal proceedings in which we were the plaintiffs or applicants of arbitration affect the effectiveness of our credit assessment.

We believe that we have made adequate provisions for the loans in our pending legal proceedings where we were the plaintiffs or applicants of arbitrations in compliance with our loan provision policies after taking into account relevant factors including the recoverability of loans. As of December 31, 2016, our provisions for the loans amounted to RMB527.2 million in the pending legal proceedings where we served as plaintiffs or applicants of arbitrations, each with a claim amount of principal exceeding RMB10.0 million. For details of our credit approval procedures and post-disbursement management and inspection towards our loans, please see “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans” and “Risk Management — Credit Risk Management — Credit Risk Management for Personal Loans”. As of the Latest Practicable Date, we did not expect any of our current and pending legal or arbitration proceedings to have, individually or in the aggregate, a material adverse effect on our business, financial condition and result of operations. Please also see “Risk Factors — We may be involved in legal and other disputes from time to time arising out of our operations.”

We set forth below material legal proceedings during the Track Record Period where we were defendants.

### *Litigations against our Xinxiang branch in relation to alleged lending and borrowing*

As of the Latest Practicable Date, we received 49 cases filed against our Xinxiang Branch raised by 43 plaintiffs demanding our Xinxiang Branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, nine cases involved claim over RMB10.0 million with an aggregate loan principal of RMB123.9 million.

- **Xinyuan series.** As of the Latest Practicable Date, 38 alleged creditors (together the “**Xinyuan Plaintiffs**”) filed 44 separate lawsuits against our Xinxiang Branch. In 31 cases, the relevant Xinyuan Plaintiffs claimed that, from February 2013 to June 2014, the then president and the then office director (together, the “**Xinyuan Borrowers**”, each a “**Xinyuan Borrower**”) of the Zhongyuan Sub-branch of Xinxiang Bank Co., Ltd. (the predecessor of our Xinyuan Sub-branch, the “**Xinyuan Sub-branch**”) borrowed money from them in the name of the Xinyuan Sub-branch and stamped the Xinyuan Sub-branch’s official chop on the relevant borrowing agreements. In the remaining 13 cases, the relevant Xinyuan Plaintiffs claimed that the Xinyuan Sub-branch also acted as the guarantor in the respective borrowing agreements they entered into with the Xinyuan Borrowers. It was alleged that the Xinyuan Borrowers failed to make repayment and the Xinyuan Plaintiffs demanded the Xinxiang Branch to repay the outstanding principal with accrued interests.
- **Changyuan series.** As of the Latest Practicable Date, five alleged creditors (together the “**Changyuan Plaintiffs**”) filed five separate lawsuits against our Xinxiang Branch alleging that, from May 2013 to September 2014, the then president (“**Changyuan Borrower**”) of the then Changyuan Sub-branch of Xinxiang Bank Co., Ltd. (the predecessor of our Changyuan Sub-branch, the “**Changyuan Sub-branch**”) borrowed money from them, and the Changyuan Sub-branch’s official chop was stamped on the “borrower” section of one borrowing agreement and “guarantor” section in the remaining four borrowing agreements. It was alleged that the Changyuan Borrower failed to make repayment and the Changyuan Plaintiffs demanded our Xinxiang Branch to repay the outstanding principal with accrued interests.

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The table below sets forth details about the above mentioned 49 cases as of the Latest Practicable Date.

No. of cases	Status
<i>Cases that were still pending for judgments</i>	
12	The relevant courts of first instance rendered judgments against us ordering us to pay the claimed amount alleged by the relevant plaintiffs. We already appealed to the relevant appellate courts in relation to all these nine judgments, which were pending for final judgments.
31	Cases were still pending for judgments by the relevant courts of first instance.
<i>Cases where judgments or orders have been entered</i>	
1	We appealed to the appellate court the unfavorable judgments against us rendered by the relevant court of first instance and have received favorable judgments already.
1	The relevant courts of first instance rejected the applications from the relevant plaintiffs.
2	The plaintiff withdrew the case.
2	The relevant courts of first instance ordered an suspension of civil litigation according to relevant PRC laws, because the criminal investigation against the Xinyuan Borrowers or the Changyuan Borrower had not yet been completed.

As advised by our legal advisor representing us in the above mentioned 49 cases, we are of the view that, based on the evidence currently available, the likelihood of the courts finding in favor of the plaintiffs and ordering us to compensate the plaintiffs' losses is remote, because (i) the underlying transactions in all these cases were conducted by Xinyuan Borrowers or Changyuan Borrower in their own personal capacity without authorization and have no bearing on Xinxiang Branch, because (A) pursuant to relevant PRC laws, PRC commercial banks are not allowed to borrow money from individuals and neither the Xinyuan Borrowers nor the Changyuan Borrower obtained any authorization from their respective branch before entering into relevant agreements, and therefore, their action shall not be deemed as performing their duty as the then president or the then office director of the relevant sub-branches; and (B) the money borrowed by the Xinyuan Borrowers or the Changyuan Borrower was all deposited into personal accounts of their own or other non-related third parties, but not into any bank accounts of the relevant sub-branches. In addition, the relevant borrowing amount were not used for the business operation of the relevant sub-branches but for personal use of respective Xinyuan Borrowers or Changyuan Borrower; (ii) according to relevant PRC laws and regulations, those pending cases shall be ordered to be suspended by the relevant courts as the police bureau already began criminal investigations on the Xinyuan Borrowers and the Changyuan Borrower; and (iii) in 22 cases, there is no valid evidence proving that the underlying transactions actually took place, as a result of which, the allegations in relevant cases shall be deemed invalid.

King & Wood Mallesons, our PRC legal advisor for the Global Offering, is of the view that, based on its interview with our legal advisor in the above litigation and the above mentioned views of such legal advisor, as the total amount claimed by both Xinyuan Plaintiffs and Changyuan Plaintiffs accounts for a low percentage of the latest net assets of the Bank as of December 31, 2016, there is no material legal impediment on our operations or the Global Offering.

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### *Litigation against our Puyang Branch in relation to alleged lending and borrowing*

In July 2016, CHU Wenfu (“**Puyang Plaintiff**”), the assignee of the alleged original creditors’ rights, filed a lawsuit against our Puyang Branch at Hualong District Court of Puyang, alleging that our Puyang Branch shall repay the alleged loan including its accrued interest. From December 2007 to August 2008, the then office director (the “**Puyang Borrower**”) of Zhongyuan Road Branch and Shengli Lu Branch at then Puyang Bank Co., Ltd. (the predecessor of our Puyang Branch, the “**Puyang Branch**”), borrowed money from the two original creditors in a total amount of RMB10.7 million. On both of the borrowing agreements entered into by the borrower and original creditors, Puyang Branch’s official chop was stamped in the “guarantor” section and/or in the “borrower” section. It was alleged that the office director failed to repay the borrowed amount on time. Hualong District Court of Puyang ruled against us and ordered us to repay a part of the alleged loan principal and accrued interest in total amount of RMB8.0 million as a guarantor. In January 2017, our Puyang Branch appealed to the Puyang Intermediate People’s Court. On June 21, 2017, we received judgment from Puyang Intermediate People’s Court where the court overruled decision from Hualong District Court and decided that (i) we shall not be deemed as the “borrower” and (ii) we shall not be jointly liable for the alleged loan with its accrued interests. The court also found that there was no valid guarantee agreements entered into by us. However, the court determined that, according to applicable PRC laws, we shall be liable for up to one half of the amount of loans and accrued interest that Puyang Borrower could not repay. As a result, we expect that our maximum liability shall be no more than RMB6.0 million. As of the Latest Practicable Date, we were in the process of preparing to apply for retrial before the Henan High People’s Court.

Our Directors are of the view that, taking into account that the total amount of liability we may bear only accounts for a low percentage of the latest net assets of the Bank as of December 31, 2016, there is no material legal impediment on our operations or the Global Offering.

King & Wood Mallesons, our PRC legal advisor for the Global Offering, is of the view that, as the total amount claimed by Puyang Plaintiff accounts for a low percentage of the latest net assets of the Bank as of December 31, 2016, there is no material legal impediment on our operations or the Global Offering.

### *Property rights dispute of Zhoukou Branch*

In April 2016, Zhoukou Huilin Property Co., Ltd., a real estate development company (the “**Huilin Property**”), filed a lawsuit against our Zhoukou Branch at Zhoukou Intermediate People’s Court, alleging that it had the ownership of buildings it constructed for Zhoukou Branch and requested Zhoukou Branch to return the properties, or otherwise compensate it in accordance with the market value of the properties that Zhoukou Branch occupied, together with the rent and accrued interests for the occupation period, which amounted to approximately RMB233.1 million. In May 2004, Huilin Property and then Zhoukou Bank Co., Ltd. (the predecessor of our Zhoukou Branch) entered into a contract in which Huilin Property was engaged to construct buildings for commercial, residential and office uses for our Zhoukou Branch. After the completion of the construction, Huilin Property and our Zhoukou Branch entered into a supplemental agreement, pursuant to which Huilin Property agreed to buy 90 apartments from the Zhoukou Branch. However, Huilin Property has never paid the purchase price for these units. Zhoukou Intermediate People’s Court determined that the ownership of the buildings at issue belonged to Huilin Property and ordered us to compensate Huilin Property at market appraisal value of the properties in dispute. In September 2016, we appealed to the Henan High People’s Court. As of the Latest Practicable Date, the court has not rendered any judgment on this case.

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As advised by our legal advisor representing us in the above mentioned litigation, we are of the view that, based on the evidence currently available, the likelihood of the court of second instance upholding the original judgment and ordering us to compensate Huilin Property is remote, because (i) Huilin Property was hired by the Zhoukou Branch to construct buildings, and the Zhoukou Branch had made all due payments on time. According to the contract terms, the ownership of the buildings shall belong to the Zhoukou Branch; (ii) after the completion of the construction, the Huilin Property's failure to transfer the registrar of the buildings to Zhoukou Branch on time, due to its internal management problem, shall not be the basis for ruling that Zhoukou Branch had no legal title of the properties in dispute; and (iii) the existence of a supplemental agreement in which the Huilin Property agreed to purchase back relevant properties from Zhoukou Branch indirectly proved that the ownership of buildings belongs to Zhoukou Branch upon completion of construction. Since Huilin Property failed to pay the purchasing price, Zhoukou Branch is actually entitled to claim an outstanding amount from Huilin Property after set-off of correlated amounts due between parties.

King & Wood Mallesons, our PRC legal advisor for the Global Offering, is of the view that, based on its interview with our legal advisor in the above litigation and the above mentioned views of such legal advisor, as the total amount claimed by both Xinyuan Plaintiffs and Changyuan Plaintiffs accounts for a low percentage of the latest net assets of the Bank as of December 31, 2016, there is no material legal impediment on our operations or the Global Offering.

### *Litigation against Lushi Defeng County Bank in relation to alleged lending and borrowing*

#### *ZHA Qingfeng Case*

In April 2015, ZHA Qingfeng (the “**Mr. Zha**”) filed a lawsuit against one of our village and township banks, Lushi Defeng County Bank (the “**Lushi County Bank**”) to Luoyang Intermediate People's Court, requesting Lushi County Bank to repay his loans principal of RMB57.5 million with accrued interests. From March 2013 to November 2013, Mr. YANG Zhenfu (the “**Mr. Yang**”), the then chairman of Lushi County Bank, borrowed money from Mr. Zha in the name of the Lushi County Bank without any authorization and entered into four separate borrowing agreements and stamped the chop of the Lushi County Bank on the relevant documents. In April 2016, Luoyang Intermediate People's Court rendered judgment against the Lushi County Bank, which later appealed to Henan High People's Court. As of the Latest Practicable Date, the court of second instance remanded the case for retrial to the court of first instance.

As advised by our legal advisor representing us in the above mentioned litigation, we are of the view that, based on the evidence currently available, the likelihood of the court of final instance upholding the original judgment and ordering us to compensate Mr. Zha is remote, because (i) the chop stamped on the agreement, receipt and the account confirmation letter was forged, and the money borrowed under the borrowing agreement has not been transferred into any bank accounts of the Lushi County Bank, therefore the borrowing arrangement between Mr. Zha and Mr. Yang has no bearing on the Lushi County Bank; (ii) the borrowing agreements were entered into by Mr. Yang in his personal capacity but not as the chairman of the Lushi County Bank because (A) pursuant to relevant PRC laws, PRC commercial banks are not allowed to borrow money from individuals, and Mr. Yang did not obtain any authorization from the Lushi County Bank to enter into the underlying transaction, therefore his action shall not be deemed as performance of his duty as the chairman of the Lushi County Bank; (B) the money borrowed by Mr. Yang from Mr. Zha was all deposited into the personal bank accounts of Mr. Yang and other non-related third parties but not into any of the Lushi County Bank's accounts, and neither was such money used for the business operation of the Lushi County Bank but was only used for personal use of Mr. Yang; and (C) Mr. Zha admitted in the court that it was Mr. Yang who paid the interests of the loan to him in the amount of approximately RMB7.0 million and the Lushi County Bank did not make any payments; and (iii) according to records of inquiry to Mr. Yang made by the relevant PRC authority, the borrower on the original borrowing

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agreement was Mr. Yang, but Mr. Zha later changed it to the Lushi County Bank and requested Mr. Yang to sign and stamp on the new borrowing agreement. Therefore, based on the fact that Mr. Zha knew that the real borrower under the borrowing arrangement was not Lushi County Bank at the time he executed the relevant receipt, borrowing agreement and account confirmation letter with a forged chop, such arrangement was entered into for the illegal purpose of transferring risks to an innocent party, the Lushi County Bank. As a result, this case shall be deemed a false litigation under the relevant PRC laws.

King & Wood Mallesons, our PRC legal advisor for the Global Offering, is of the view that, based on its interview with our legal advisor in the above litigation and the above mentioned views of such legal advisor, as the alleged amount of the case accounts for a low percentage of the net assets of the Bank as of December 31, 2016, there is no material legal impediment on our operations or the Global Offering.

### *LIU Yansheng Case*

In March 2017, LIU Yansheng (the “**Mr. Liu**”) filed a lawsuit against one of our village and township banks, the Lushi County Bank, to Luoyang Intermediate People’s Court, requesting the Lushi County Bank to be jointly and severally liable for his loans and accrued interests in a total amount of RMB44.0 million. Mr. Liu alleged that, from August 2012 to October 2013, Mr. Yang, the then chairman of the Lushi County Bank, entered into three separate borrowing agreements and two supplemental agreements with Mr. Liu to borrow money from him, where the official chop of the Lushi County Bank was stamped at the signature places for guarantor on three borrowing agreements and one of the supplemental agreements.

As advised by our legal advisor representing us in the above mentioned litigation, we are of the view that, based on the evidence currently available, the likelihood of the court finding in favor of Mr. Liu and ordering us to compensate Mr. Liu is remote, because (i) Mr. Yang used a forged company chop and he stamped such chop on relevant agreements without authorization from Lushi County Bank and relevant parties entered into such agreements in places other than offices of the Lushi County Bank. In addition, Mr. Yang entered into relevant agreements in his personal capacity without authorization. Therefore, the court is not likely to deem that the underlying transaction of the case has any bearing on the Lushi County Bank at all; (ii) even if it is considered that the Lushi County Bank is involved in the underlying transaction, the relevant agreements shall be deemed invalid, because (A) according to the terms in the relevant borrowing agreements, the money from Mr. Liu was used for acquiring equity interests of the Lushi County Bank. Such transaction is not allowed under relevant PRC laws, making the relevant agreements unenforceable due to illegal contract purpose, as a result of which, the associated supplemental agreements shall also be deemed illegal; (B) Mr. Liu raised his requests to the Lushi County Bank demanding performance of the alleged guarantor’s obligations only on June 3, 2015, which shall be deemed invalid due to the lapse of statute of limitations according to relevant PRC laws and regulations; and (C) Mr. Liu and Mr. Yang entered into supplemental agreements in 2013 to revise original clauses in borrowing agreements including the guarantee arrangement, according to which Mr. Liu pledged shares of Lushi County Bank owned by him as collateral, without mentioning any obligations of Lushi County Bank. As a result, these revisions shall be deemed as a release of alleged obligations of the Lushi Country Bank in previous agreements, if any.

King & Wood Mallesons, our PRC legal advisor for the Global Offering, is of the view that, based on its interview with our legal advisor in the above litigation and the above mentioned views of such legal advisor, as the alleged amount of the case accounts for a low percentage of the net assets of the Bank as of December 31, 2016, there is no material legal impediment on our operations or the Global Offering.

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Based on the above mentioned factors, our Directors are of the view that all the above mentioned legal proceedings, individually or collectively, will not cause any material adverse effect on our business, financial conditions and results of operations.

### **Regulatory Inspections and Proceedings**

We are subject to various regulatory requirements and guidelines promulgated by different PRC regulatory authorities, including the PBoC, SAT, CBRC, SAIC, NDRC and their respective local branches and offices. Inspections and examinations are carried out by such regulatory authorities in respect of our compliance with legal and regulatory requirements in relation to our business operations, risk management and internal control. During the Track Record Period, we had been subject to certain administrative penalties, mainly in the form of fines, as a result of these inspections and examinations. These penalties, individually or in the aggregate, do not and will not have a material adverse effect on our financial condition or results of operations, nor will they affect our holding of approvals, permits, authorizations or filings necessary for business operations.

Save as disclosed under “ — Legal and Administrative Proceedings — Regulatory Inspections and Proceedings”, “ — Legal and Administrative Proceedings — Compliance with Core Indicators”, “ — Legal and Administrative Proceedings — Anti-Money Laundering” and “ — Legal and Administrative Proceedings — Employee Non-compliance”, we have been in compliance with relevant regulatory requirements and guidelines relating to our business operations, risk management, tax compliance and internal controls in all material respects and there have been no other regulatory inspections or proceedings that may cause material and adverse impact on our business operations or financial results during the Track Record Period and up to the Latest Practicable Date.

These inspections and reviews have not identified any major risk or non-compliance events in us but located some deficiencies in our business operations, risk management and internal control, the details of which are set out below. Although these issues have not had any material adverse impact on our business, financial position or results of operations, we have taken improvement and remedial measures to prevent the recurrence of similar incidents in the future.

### ***Administrative Penalties***

- PBoC. During the Track Record Period, our Bank was subject to 22 cases of penalties imposed by different sub-branches of the PBoC, causing fines with a total amount of RMB858,518.64, primarily including penalties against certain branches for their failure in (i) strictly following customer identification authentication requirements and regulatory requirements on making timely report on reportable transactions, which occurred in November 2015 and November and December, 2016; (ii) categorizing fiscal deposits under proper accounting items in financial statements, which occurred in August 2014 and December 2016; (iii) making proper financial disclosure or timely updating customer information, which occurred in December 2014 and September, November and December 2015; and (iv) maintaining proper deposit reserve, which occurred in April and October 2014.
- Tax Authorities. During the Track Record Period, our Bank was subject to seven cases of penalties imposed by different PRC tax authorities, causing fines with a total amount of RMB672,708.08, primarily including penalties against certain branches for their (i) inappropriate management of invoices, which occurred in March and December 2014 and November 2015; and (ii) inaccurate tax declaration, which occurred in October 2015 and April, July, and December 2016.
- SAIC. During the Track Record Period, our Bank was subject to 10 cases of penalties imposed by different local offices of SAIC, causing fines and confiscations of



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non-compliant gain with a total amount of RMB579,440, primarily for (i) charging borrowers' mortgage registration fee which was supposed to be borne by us, which occurred in April, June, July and September 2014, April and May 2015, and May 2016; and (ii) other miscellaneous non-compliance, including designating valuation companies for customer's selection and using inappropriate language in advertisement or disclaimers, which occurred in November 2015.

- NDRC. During the Track Record Period, our Bank was subject to 10 penalties imposed by different Municipal Commissions of NDRC, causing fines and confiscations of non-compliant gain with a total amount of RMB1,974,538, primarily caused by certain branches' failure in paying mortgage registration fee pursuant to relevant requirements, which occurred in December 2014 and January, April, May and July 2015.
- CBRC. During the Track Record Period, a subsidiary of our Bank was subject to one penalty imposed by Hebi local office of the CBRC, causing a fine of RMB500,000. For details, please see “— Compliance with core Indicators”, which occurred in November 2015.
- Price Bureau. During the Track Record Period, our Bank was subject to two penalties imposed by different Municipal Price Management Offices, causing fines and confiscations of non-compliant gain with a total amount of RMB330,980, primarily due to failure of certain branches in paying mortgage registration fee pursuant to relevant requirements, which occurred in July 2015.
- Ministry of Human Resources and Social Security. During the Track Record Period, we received one administrative penalty with a fine of RMB150,000 imposed by Shangqiu Municipal Bureau of Human Resources and Social Security for inaccurate disclosure of payable amount of employees' injury insurance, which occurred in December 2015.

During the Track Record Period and as of the Latest Practicable Date, we had made timely payment for fines of all the above-mentioned administrative penalties.

Save as the non-compliance incidents disclosed under “— Legal and Administrative Proceedings — Regulatory Inspections and Proceedings”, “— Legal and Administrative Proceedings — Compliance with Core Indicators”, “— Legal and Administrative Proceedings — Anti-Money Laundering” and “— Legal and Administrative Proceedings — Employee Non-compliance”, as of the Latest Practicable Date, we had not been subject to any other material administrative penalties.

We have taken and will continue to take the following major steps and measures to rectify the issues identified by the PRC regulatory authorities:

- regarding the issues with clear solutions, we have rectified in a timely manner in accordance with rectification opinions of the PRC regulatory authorities and our internal policies;
- regarding the issues caused by flaws in our systems and procedures, we improved the relevant systems and procedures;
- regarding the issues in connection with the poor implementation of our systems, we have held the employees who violated the rules accountable and issued internal warnings and guidance;

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- regarding the branches and sub-branches which were not inspected by the PRC regulatory authorities, we have inspected these branches and sub-branches ourselves for issues highlighted by the PRC regulatory authorities to eliminate similar operational risks and hidden potential management obstacles; and
- to prevent such issues from recurring, we provided additional training to employees, took new measures in risk management and improved our internal control system.

In particular, we have taken, and intend to continue implementing, the following key steps and measures to rectify the issues identified by the PRC regulatory authorities:

- regarding the non-compliant disclosure of financial statistic data, we have enhanced internal training on this topic for our relevant staff, conducted comprehensive self-inspection with respect to issues discovered in the financial statistic regulatory inspections, strengthened the supervision and inspection regarding the implementation of our internal policies, and included financial statistic data quality as an indicator of our comprehensive performance appraisal system;
- regarding the non-compliant categorization of fiscal deposits into improper accounting items in financial statements, we have strengthened self-inspection in our fiscal account management, in particular the fiscal deposits accounts, rectified the accounts at issue, enhanced supervision and monitoring over our deposits and loans balance and further strengthened the internal training on this topic for our staff;
- regarding the non-compliance with anti-money laundering requirements, we have included the anti-money laundering performance as an indicator into our performance review system, strengthened our requirements on implementation of customer identity registration, enhanced the scrutiny of identity authentication measures over customers with a high risk of corruption and bribery-taking, and improved our information process and analysis to improve the quality of our suspicious transaction reports; and
- regarding the non-compliance with currency management requirements, we have enhanced internal training on RMB management requirements for our staff, in particular counter clerks, to improve our professional quality and standards of service, strengthened self-inspection concerning issues discovered in regulatory inspections and upgraded relevant internal IT hardware and facilities.

Through the above remedial measures, we believe that we have taken appropriate actions to rectify the identified deficiencies. As of the Latest Practicable Date, we had not received any objection to our remedial actions or any request to implement further remedial measures from the regulatory authorities. Our Directors believe that the above administrative penalties did not, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

We have engaged an independent internal control adviser to review our internal controls over financial reporting between December 2016 and March 2017. Based on the findings and recommendations identified by the internal control adviser, we have made improvements in matters related to our business operation, internal control and risk management, including controls in relation to the deposit business process, credit business management process and financial markets business process.

Based on (i) there being no material adverse impact of our non-compliance incidents on our business, financial condition or results of operations; (ii) the internal control measures we have adopted based on the recommendations of our internal control adviser, and (iii) the internal control adviser's confirmation that we have taken remedial measures to rectify the internal control deficiencies, our Directors consider that our internal control measures are adequate and effective in all material aspects.

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### *Findings of Regulatory Examinations*

Certain routine and *ad hoc* inspections and reviews carried out by PRC regulatory authorities have identified that we had certain deficiencies with respect of our business operations, risk management, anti-money laundering, corporate governance and internal controls, the details of which are set forth below. None of these inspections and reviews has identified any material risk or incident of non-compliance. We have remedied the identified deficiencies and submitted remedial reports to relevant regulatory authorities. During the Track Record Period and up to the Latest Practical Date, the relevant regulatory authorities had not raised any objection to our remedial measures set out in the remedial reports and adopted by us, nor had the regulatory authorities requested us to adopt further remedial measures. The major inspection and review results and our corresponding remedial measures are summarized below.

### **CBRC**

The relevant local offices of the CBRC conducted regular and *ad hoc* inspections on our operating conditions. Based on these inspections, the relevant local offices of the CBRC issued inspection reports that include inspection results and guiding opinions. The major issues and guiding opinions raised by the relevant local offices of the CBRC in their reports to us and our corresponding remedial measures during the Track Record Period and up to the Latest Practical Date are set forth below:

<b>Major issues and main recommendations</b>	<b>Our primary remedial measures</b>
<b>Credit risk management</b>	
<ul style="list-style-type: none"><li>• Incomplete and inadequate pre-loan investigation and post-loan disbursement management mechanism, including failure to conduct comprehensive review on clients' background to evaluate credit risks, failure to properly track and supervise use of proceeds; and failure to make timely adjustment on classification of loans based on most recent factors.<sup>(1)</sup></li></ul>	<ul style="list-style-type: none"><li>• We improved our pre-loan investigation on borrowers' background by enhancing comprehensive review measures in this respect; strengthened the implementation of our review procedures before disbursing loans; implemented bank-wide credit management over our low-risk credit business and improved the risk management training for our account managers.</li></ul>
<ul style="list-style-type: none"><li>• Failure to properly assess and categorize relevant loans based on their quality and make timely update on such classification based on most recent status of relevant borrowers.<sup>(1)</sup></li></ul>	<ul style="list-style-type: none"><li>• We improved our post-loan disbursement management, including (i) enhancing the tracking and review of utilization of loan proceeds; (ii) making timely adjustment of risk classification of relevant loans according to most updated business and financial conditions of relevant borrowers; and (iii) enhancing inspection procedures on post-loan disbursement reports.</li></ul>
<ul style="list-style-type: none"><li>• Inadequate credit risk prevention and management system, in particular in relation to management of NPL, including failure in properly implementing relevant rules and procedures, properly assessing and categorizing relevant loans based on their quality; and failure to efficiently disposing of certain assets.<sup>(1)</sup></li></ul>	<ul style="list-style-type: none"><li>• We improved our loan categorization and credit risk classification system, so that it could properly show the difference in relevant borrowers' business operations and financial conditions, their capacity and willingness to make repayment, and status of collateral. Further, we enhanced professional training on our staffs to increase their capacity to identify relevant risks in various loans.</li><li>• We improved the implementation of relevant internal rules to control and decrease the amount of NPL, in particular, we enforced rules to reduce the amount of loans to industries with excess production capacity; improved the classification of loans based on their quality, strengthened the management and supervision over our branches' NPL; improved the disposition and management of foreclosed assets, and strengthened the management over our debit card business.</li></ul>

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### Major issues and main recommendations

- Failure to properly manage risks associated with increasing amount of NPLs, including insufficient control over loan approval for clients with high risks and timely recovery and liquidation of NPLs.<sup>(1)</sup>
- Inadequate management to monitor loans to small and micro enterprises.
- The risk of certain interbank business was high because of (i) concentration of loan portfolio in certain high risk industries and (ii) inefficient management mechanism over interbank business.
- Failure to properly identify or control credit risks associated with loans approval and post-disbursement management.<sup>(1)</sup>

### Operational risk management

- Failure to prepare comprehensive set of rules to address risks associated with leave and rotation of employees.
- Failure to properly manage operation risks, including failure to prepare comprehensive set of rules and implementation rules to address all key aspect of operation risks; failure to properly supervise and evaluate performance of our employees.<sup>(1)</sup>

### Liquidity risk management

- Non-compliance with certain liquidity regulatory indicators with applicable regulatory requirements.<sup>(1)</sup>

### Our primary remedial measures

- We (i) required our staff to improve the frequency and measures in reviewing relevant borrowers' real operational conditions; (ii) increased our efforts in collecting defaulting debts; and (iii) improved the training and performance appraisal system for our staff in respect of credit risk management.
- We improved our internal organization and management structure, strengthened our team building and performance appraisal mechanism, enriched our financial service products regarding small and micro enterprise customers and streamlined our business process.
- We reduced the industry concentration of our loan portfolio by reducing the amount of loans to selected industries such as real estate, enhanced the mechanism for early warning and timely review of credit risks, improved the efficiency of disposition of non-performing assets, and further enhanced the background and credit investigation measures on counter parties when conducting interbank business.
- We formulated specific internal rules and policies governing interbank business to set out detailed standards and procedures, so that we could further optimize the overall structure of our interbank business; enhanced the post-loan disbursement management; and improved the reporting and inspection mechanism to improve the quality of Non-standard Credit Assets.
- We improved our ability to identify relevant risks; enhanced post-disbursement management; established and improved internal rules in relation to rectifications of employee non-compliance incidents and enhanced relevant training.

- We formulated a rotation plan for the key personnel at our branches and sub-branches, conducted investigations over its implementation results, and improved our internal policies on compulsory leave and key personnel rotation.

- We enhanced the legal compliance work, including strictly implementing rules in relation to supervision on employees' performance of duties, improved the frequency and effectiveness of inspections and rectifications, enhanced risk management measures on key areas of our business operation and improved employees' awareness of risks and compliance culture.

- We acquired additional liquid assets to further increase our liquidity ratio, improved our internal monitoring and supervision system over various liquidity indicators, and enhanced our assets liability management mechanism, including adopting additional internal rules on this matter and improving the risk assessment capacity of our management staff.

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### Major issues and main recommendations

- Failure in properly take necessary measure to effectively mitigate liquidity risks, including failure to maintain a proper aging structure of deposits; certain key indicators in relation to liquidity risks are within comparatively risky level; the design and implementation of liquidity risk stress test is subject to improvement.<sup>(1)</sup>
- Failure to properly manage development of bank bills business, including failure to properly process and record relevant documents, make proper credit risks review through strictly enforcing post-disbursement management.
- Failure to properly manage development of discounted bills business, including failure to prepare comprehensive set of rules to cover all key aspect of this business; failure to make proper credit risks review through strictly enforcing post-disbursement management.
- Failure to properly manage development of acceptance bills business, including failure to properly process and record relevant documents and making proper credit risks review through strictly enforcing post-disbursement management.

### Financial markets business

- Insufficient risk management on wealth management and inappropriate marketing of wealth management products, including failure to properly enforcing investigation measures on investment targets of certain wealth management products or properly monitor quality of such products after making relevant investment; and failure to prepare comprehensive set of rules to cover all key aspect of wealth management products, including quality control and advertisement.

### Our primary remedial measures

- We enhanced our capacity to mitigate liquidity risks, including optimizing the aging structure of bank deposits, closely monitored and supervised key indicators in relation to liquidity status of our bank, and improved the implementation of liquidity risk stress tests.
- We revised and improved the internal rules on bank bills business to standardize our operation process, conducted regular business investigations, and enhanced professional training for relevant staff.
- We enhanced checking and monitoring over irregular misconduct of employees, and improved our employee performance evaluation mechanism.
- We formulated and updated relevant internal rules in relation to our bank bills business to set out detailed standards and procedures, strengthened the trade background investigation on counter parties and underlying trading transactions, improved the implementation of rules on regular or *ad hoc* inspections in daily operations or management of and review over our acceptance bills business.
- We revised and improved the internal rules on our discounted bills business to standardize the business operation process, strengthened the review and approval system over discounted bills business, and conducted relevant internal inspections in this respect.
- We revised and improved the internal rules on our acceptance bills business, improved the pre-loan investigation and approval procedures; enhanced credit review, approval and post-loan disbursement management measures, improved regular internal inspection plan in this respect, and strengthened our training for relevant employees.
- We formulated additional rules and improved relevant implementation procedures, improved the composition of the team managing this business, revised and improved our internal rules and amended the agreements for sale of wealth management products to address key risks, established a regular monitoring mechanism and a performance appraisal system for investment management, and strengthened our review process over Non-standard Credit Assets.
- We addressed the risks in relation to inappropriate publication and advertisement of wealth management products by including additional and more explicit, cautious and accurate description on risks of relevant investments in sales documents, and improved the tracking and record system of business.

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Major issues and main recommendations	Our primary remedial measures
<ul style="list-style-type: none"><li>• Failure of certain employees in properly monitoring quality of investment in trust plans, such as failure to collect timely reports in relation to latest status of collateral or information that is important to evaluate underlying risks.</li><li>• (i) Inadequate investments of Non-standard Credit Assets in real economy; (ii) inefficient use of capital resulted from using multi-layered investment structure; and (iii) insufficient allowance for impaired assets.<sup>(1)</sup></li></ul>	<ul style="list-style-type: none"><li>• We strengthened our post-loan disbursement review on our trust products and established the requirements on submitting quarterly analysis reports, enhanced the implementation of procedures in relation to collateral or security measures for different types of trust plans, and improved our information collection and verification to control risks.</li><li>• (i) We increased our investments in real economy and aimed to devote our efforts in supporting the local economy; (ii) optimized our transaction structure, improved our operational system for wealth management products to further enhance the efficiency of the use of capital; and (iii) adopted various measures to improve the quality of our assets, including assigning each senior management member to be in charge of the recovery of NPLs in different branches and further enhancing our risk management measures, so as to ensure close supervision of relevant work throughout the Bank.</li></ul>

### Corporate governance and Internal Control

<ul style="list-style-type: none"><li>• Inadequate and incomplete corporate governance and internal control structure, including insufficient number of independent directors; unclear responsibility delineation among different internal control departments; failure in implementing sufficient management on Non-standard Credit Assets and credit approval procedures.<sup>(1)</sup></li><li>• Failure to prepare specific internal control policies or procedures in relation to certain banking products; failure of some employees to strictly follow relevant credit review rules in relation to approval and post-disbursement loan management.<sup>(1)</sup></li><li>• Failure to establish an efficient communication channel among different branches and offices to allow management to efficiently control relevant business units; to ensure timely distribution of key management policies among employees; and to ensure relevant departments make timely submission of feedbacks.<sup>(1)</sup></li></ul>	<ul style="list-style-type: none"><li>• We nominated new independent director candidate and adopted additional internal rules in determining the roles and functions of various internal corporate departments; improved the management of investments in Non-standard Credit Assets, including investigating the ownership and disposal of certain fixed assets; and improved management and supervision over our credit extension mechanism to rectify “approval-beyond-authority” incidents.</li><li>• We formulated additional rules and enhanced implementation measures to better address risks associated with our business operations, including our management of certain business and automobile loan products, and strengthened the performance evaluation mechanism over our internal control team.</li><li>• We established an intra-group mail and email communication system to ensure timely communications and document delivery among employees in different locations, covering head office, branches and sub-branches, and improved the vertical and independent reporting system for key function teams such as risk management teams, to ensure relevant employees could receive timely instruction, reports and feedback.</li></ul>
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#### Note:

- (1) As of the Latest Practicable Date, we were preparing remedial reports in relation to certain recommendations we recently received, which addressed certain incidents under this category. Remedial measures in relation to incidents identified in these reports will be updated upon submission of relevant remedial reports. Our Directors believe that incidents identified in these inspections have no material adverse impact on our financial position or results of operation.

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During the Track Record Period, we made timely submission of reports in relation to implementation of regulatory recommendations included in the inspection reports issued by the relevant local offices or CBRC Henan Office. As of the Latest Practicable Date, neither had we received any further comments from the relevant local offices of the CBRC, nor had we received any notice requiring us to take further remedial measures or imposing penalties on us. Pursuant to the inspection reports issued by the relevant local offices of the CBRC, we believe that there are no material deficiencies in our business operations, corporate governance, internal controls or risk management. We also believe that the above suggestions and recommendations have no material and adverse impact on our business, financial condition or results of operations, but instead have enabled us to improve and enhance our operation management capabilities and risk control capabilities.

### PBoC

The relevant local branches of PBoC conducted routine and *ad hoc* inspections on our operation from time to time. Based on these inspections, the relevant local branches of PBoC issued inspection reports that included inspection results and guiding opinions.

The major issues and guiding opinions raised by the relevant local branches of PBoC in their reports to us and our major remedial measures during the Track Record Period and as of the Latest Practical Date, are set forth below:

<u>Major issues and main recommendations</u>	<u>Our primary remedial measures</u>
<ul style="list-style-type: none"><li>• Failure of certain employees to strictly follow anti-money laundering measures, including using an outdated list of targets under supervision and failure to maintain proper record; failure of our Bank to prepare comprehensive anti-money laundering policies and implementation of rules to ensure proper management of relevant risks.</li></ul>	<ul style="list-style-type: none"><li>• We adopted additional rules and implementation guidance in relation to anti-money laundering at each level of our Bank to improve the efficiency and effectiveness of supervision and management in this respect;</li><li>• We revised template documents for customer identification, and enhanced the implementation of rules governing customer identification and record keeping;</li></ul>
<ul style="list-style-type: none"><li>• Failure to strictly implement financial statistics reporting procedures, such as using accurate template, collecting sufficient background information of customers; and failure of certain employees to show their knowledge of related requirements.</li></ul>	<ul style="list-style-type: none"><li>• We improved procedures to closely monitor and investigate transactions of large amount or with suspicious nature, streamlined internal structure and check-and-balance mechanism to ensure compliance, and improved internal training system and performance evaluation system in this respect.</li></ul>
<ul style="list-style-type: none"><li>• Failure of certain employees to strictly follow internal control policies in relation to interbank business, such as making timely reports to PBoC on balance of interbank business and properly implementing related internal control measures.</li></ul>	<ul style="list-style-type: none"><li>• We improved training for our employees on financial statistics preparation and financial information protection, and formulated detailed procedures in relation to investigation, emergency solutions and evaluation standards.</li><li>• We improved the credit evaluation and reporting system, including (i) updating relevant template documents to improve the quality of collected data, (ii) improving investigation procedures on clients' credit; and (iii) enhancing internal training for our staff.</li></ul>
	<ul style="list-style-type: none"><li>• We improved the internal control measures in relation to the interbank business, enhanced the management over our interbank credit extension and business operations and timely reported non-compliance events in this respect.</li></ul>

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### Major issues and main recommendations

- Failure of certain employees to strictly follow relevant internal control procedures during their provision of settlement services, such as conducting sufficient background inspection of certain customers; failure to make timely reports to supervisory authorities.

### Our primary remedial measures

- We improved the payment and settlement business operations, including (i) enhancing internal training for relevant staff in this respect, and (ii) improving our inspections and reporting system and performance evaluation system.
- We improved the fiscal deposit and national treasury business, including (i) strengthening the implementation of relevant rules to prevent the recurrence of non-compliant incidents, and (ii) enhancing training for relevant staff in this respect.
- We strengthened the implementation of submitting supplementary reports in relation to financial IC card business to relevant PBoC branches.

We timely submitted reports with respect to our implementation of regulatory recommendations included in the inspection reports issued by the relevant local branches of PBoC. As of the Latest Practicable Date, we had not received any further opinions from the relevant local branches of PBoC in respect of our implementation of their recommendations, nor had we been requested to take any further remedial measures or subject to any penalties. Based on the aforesaid inspection reports issued by relevant local branches of the PBoC, we believe that we do not have significant deficiencies in our business operations, internal audit and risk management which may result in material and adverse impact on our business, financial condition or results of operations.

### Compliance with Core Indicators

We are required to comply with various ratios set out in the Core Indicators (Provisional) of the CBRC, please see “Supervision and Regulation — Other Operational and Risk Management Ratios.” During the Track Record Period, we were subject to one administrative penalty for the following incident of non-compliance with the core indicators:

Ratio	Details of non-compliance	Our primary remedial measures
Loan concentration on a single customer	As of December 31, 2014, the loan balance of Qixian Zhongyuan County Bank, one of our subsidiary, with Qixian Guangsha Real Estate Property Company Limited (淇縣廣廈房產置業有限公司) exceeded 10% of its net capital.	We had taken proactive measures to collect the loan and had received all of the principal and interest, reducing the loan balance below 10% of its net capital.

In this incident, our Qixian Zhongyuan County Bank was subject to a fine of RMB500,000 imposed by Hebi Municipal Office of the CBRC, Please see “ — Legal and Administrative Proceedings — Regulatory Inspections and Proceedings — Administrative Penalties”. King & Wood Mallesons, our PRC legal advisor, is of the view that this non-compliant incident will not have a material adverse effect on our business operations and financial condition, and that we have taken the necessary steps to correct it. Other than this incident, during the Track Record Period our Bank was not subject to any administrative penalties for failure to meet regulatory indicators.

### Anti-Money Laundering

No material abnormal money laundering incidents had been identified or reported to the senior management during the Track Record Period. For details of our anti-money laundering measures, see “Risk Management — Legal and Compliance Risk Management — Anti-Money Laundering”.



### **Employee Non-compliance**

We have, from time to time, detected non-compliance incidents or allegations in relation to embezzlement or other non-compliance matters against our employees, customers and other third parties. For instance, during the Track Record Period, Mr. ZHAO Wuxing, our former secretary of commission for disciplinary inspection of the Communist Party of China in our Zhumadian Branch and Mr. GAO Zhimin, the former chairperson of the board of directors of our Xuchang Branch, were under inspection or negative judgment, respectively, for alleged embezzlement or accepting bribes when they were at the position. Both of the incidents occurred prior to the establishment of our Bank. We believe these incidents, individually or in aggregate, will not have any material adverse effect on our business, financial position or results of operations. Save as disclosed in the prospectus, none of our Directors or employees has been involved in any non-compliance incidents that have material adverse effect on our business, financial condition or results of operations.

After the occurrence of the above mentioned cases, our Bank have identified the liabilities of relevant responsible persons and imposed penalties accordingly. We have also implemented measures to control relevant risks and prevent recurrence of similar incidents, including strengthening professional education and internal training on professional ethics and compliance for our employees, enhancing self-inspections to improve our risk management and strengthening our complaint channels. For details, please see “Risk Management — Legal and Compliance Risk Management”.

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## RISK MANAGEMENT

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### OVERVIEW

The primary risks in relation to our operations include credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk, and legal and compliance risk. In accordance with our core value of being “prudent, innovative, enterprising and efficient”, we are committed to establishing and improving our risk management system to strike a balance between risk and return, so that we may strictly control our risk exposure to prevent the ultimate loss of assets while allowing business innovations.

From the beginning of 2014 to December 22, 2014, the risk management was carried out by the respective risk management departments in the Thirteen City Commercial Banks under the supervision of the Leading Group Office. Since the Reorganization, we have successfully established an integrated risk management system with comprehensive risk coverage, and we have been upgrading and optimizing our risk management system. We have set up various departments responsible for management of different types of risks at our head office, branches and sub-branches with designated risk management personnel. We have also adopted various measures, including direct dispatch of chief risk officers by head office, rotation of branch chief risk officers and establishment of the double-line reporting system, to ensure the independence and effectiveness of our risk management system. For details about our risk management structure, please see “ — Risk Management Structure” and “ — Recent Risk Management Measures”. We are continuously improving our risk management system to be in line with Basel III, our growing operational scale, business targets and evolving strategies.

### Our Risk Management Objectives and Guidance Principles

Our risk management objectives include (i) to build a comprehensive, vertical, independent and efficient risk management system supported by a professional team to cover bank-wide risks; (ii) to delineate the responsibilities and liabilities among different positions and departments; (iii) to improve our risk management capabilities; and (iv) to improve the overall quality of our assets.

To achieve the above mentioned objectives, we have implemented the following guidance principles in our risk management.

- ***Consolidating a comprehensive risk management system.*** In terms of overall structure of risk management system, we emphasize on delineating the responsibilities of different positions and departments and establishing effective check and balance mechanism. In addition, we have established a three-line defense system to cover all business lines, products and procedures so that we could effectively mitigate associated risks.
- ***Improving our risk management capabilities.*** To enhance our risk management capabilities and mitigate risks in key sectors, industries and service areas, we formulate internal policies aiming at specific businesses or industries and invest in training of risk management personnel to improve their risk management capabilities.
- ***Ensuring the independence of risk management.*** We ensure the independence of risk management by separation of functions between business departments and risk management departments. We maintain a vertical reporting line and a distinguished evaluation system for our risk management personnel. To further strengthen the independent of our risk management, we continue to (i) enhance the vertical management structure on risk control related work; (ii) properly allocate authorities to departments at different levels; and (iii) streamline business operational procedures.
- ***Cultivating a prudent and responsible risk management culture.*** We continue to cultivate a prudent and responsible risk management culture by delineating the responsibilities among different departments, granting corresponding authorities in line with each department’s specific responsibilities, and strengthening their accountability.

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## RISK MANAGEMENT

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- ***Optimizing the incentive and evaluation mechanism for risk management.*** We constantly optimize our incentive and evaluation mechanism for risk management personnel in both our head office and branches so to tie their risk management performance to their credit authorization, work compensation and personal promotion. We continue to implement measures to increase the accountability of staff to constantly strengthen their risk awareness.

### **Recent Risk Management Measures**

We constantly improve our risk management mechanism. We have adopted and will continue to implement the following measures:

#### ***Optimizing our risk management structure***

- We optimize our comprehensive risk management framework so that our bank-wide risks shall be under the centralized management of the Risk Management Department at our head office and various other functional departments at our head office, such as the Credit Approval Department, the Credit Management Department, the Financial Planning Department, the Legal Preservation Department, the Compliance Department, the Information Technology Department and the Monitoring and Guardian Department, etc.
- We optimize our operational risk control system, which consists of three lines of defense, namely, the business departments, the risk management-related departments and the audit departments. For details, please see “ — Operational Risk Management — Three Lines of Defense”.

#### ***Further clarifying the responsibilities of our risk management officers***

- The senior management of our head office are responsible for implementing risk management strategies, important risk management policies and risk preference approved by the Board, and are in charge of the organization and implementation of our overall risk management.
- The President of our head office is the principal person responsible for risk management. The senior management in charge of risk management in our head office assist the President in managing our overall risk exposure and are the primary responsible persons for risk management.
- Each of the branch presidents is the principal person responsible for the establishment of a comprehensive risk management system, the results of business, the quality of assets and the overall risk management of its respective branch. The senior management in charge of our branches’ risk management functions are the primary responsible persons for the quality of assets and the risk management of their respective branches.

#### ***Better coordinating work among the risk management-related departments at all levels***

- We improve the coordination of work among the risk management-related departments at all levels. We have established a Risk Management Committee of the Board to discuss and review our risk management policies and monitor the management and control status of each type of risks. We have set up the Risk Management and Internal Control Committee under the senior management of our head office to review and decide on bank-wide risk management policies and major issues relating to risk management, internal control and compliance. The Risk Management and Internal Control Committee has set up an office within the Risk Management Department to better coordinate the daily work relating to risk management and to better supervise the implementation of risk management-related policies by relevant departments.

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## RISK MANAGEMENT

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### *Implementing the double-line reporting system*

- We strengthen our vertical management model and ensure the independence of our risk management personnel by implementing our double-line reporting system and chief risk officer dispatch and rotation policy in our branches. For details, please see “ — Risk Management Structure — Risk Management Framework at Our Branches and Sub-branches — Double-Line Reporting System” and “ — Risk Management Structure — Risk Management Framework at Our Branches and Sub-branches — Appointment and Rotation of Risk Management Personnel”.

### *Strengthening the credit approval and authorization system*

- We strengthen our tiered credit approval and dynamic authorization system, which contains specific credit approval procedures at our head office, branches and sub-branches and differentiated authorization limits that are adjusted by our head office from time to time.
- The Credit Approval Department at our head office formulates differentiated authorization schemes for each branch based on its asset scale and quality and overall risk management competency, and adjusts its relevant authorized limits that are commensurate to its operations. The branches may delegate certain credit approval authorization relating to low-risk businesses, personal credit businesses and small and micro enterprise businesses to branch chief risk managers, branch risk management department heads and authorized approvers. Such delegation of authorization must be approved and filed by the Credit Approval Department of our head office.
- For personal consumption loans within branches’ authorized limits, we require two signatures, including one from a credit review officer and the other from an authorized approver. For personal business loans and small and micro enterprise loans within branches’ authorized limits, we require either two signature approvals or approvals from the branch credit approval committees. The authorization of certain authorized loan plans, such as employee consumption loan plans to high quality enterprises and bulk personal business loan model plans, requires an approval from the Credit Approval Committee.
- We require our branches to strictly follow the credit approval authorization limits set by our head office and immediately correct any possible acts exceeding the authorization.

### *Ensuring the separation of credit review and loan business development*

- We continue to ensure the separation of credit review and loan business development. The branch senior management who are responsible for business management, marketing, promotion or business operation, the heads of branch business departments and the presidents of sub-branches are not permitted to be members of the credit approval committees. The branch presidents are not permitted to be members of the credit approval committees, but they have the veto right to the projects approved by the committees. The chief risk officers are generally not permitted to manage any business marketing departments.

### *Improving our performance evaluation and incentive mechanism*

- We continue to improve our performance evaluation and incentive mechanism to better serve our comprehensive, vertical, independent, professional and efficient risk management system.

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## RISK MANAGEMENT

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- Our head office continues to improve the evaluation mechanism for risk management of our branches and sub-branches. For evaluations relating to risk management, we take into account of the quality of pre-loan investigations, the quality of credit review and approval processes, the quality of post-disbursement management, the quality of assets, the system establishment and the implementation of the credit authorization. The result of the risk management evaluation is tied to each individual's authorized limits, business line permissions, assessment of performance and promotions.
- Our head office continues to improve the performance evaluation, incentive and assessment mechanism for our chief risk officers dispatched to the branches. We adopt both quantitative and qualitative criteria, taking into account their overall performance relating to risk management in the branches, including the control of assets quality, reporting of major risk incidents, implementation of risk management policies and credit authorization. The evaluation results are reported to the Human Resource Department of our head office and are tied to each individual's promotions, authorized limits, business line permissions and performance remunerations.
- Each branch establishes its own evaluation and incentive mechanism for their risk management personnel in compliance with the head office's requirements and guidance based on the branch's business scale and risk management status.
- We strengthen the accountability system for non-performing loans and discipline those who fail to perform sufficient due diligence, investigations or management according to our policies or violate our policies. We believe by establishing a comprehensive assessment and accountability system we will strengthen our employees' risk management awareness, and achieve our risk management objectives bank-wide.

### *Strengthening personnel management and improving the risk management capabilities*

- Our head office will continue to dispatch chief risk officers to branches and increase the rotation frequency of the branch chief risk officers. We will also strengthen our management over the qualification and capability of the risk management personnel. We require the appointments and changes of major personnel at branch risk management departments to be approved by the Human Resource Department at our head office, and to be filed with the Risk Management Department and the Credit Approval Department at our head office.
- We continue to improve our position qualification and promotion mechanism for our chief risk officers, risk management directors, special approvers, risk managers, post-disbursement managers and other risk management staff. We provide our risk management staff with a long-term career path and maintain a stable risk management team. We prohibit unqualified employees from engaging in the work that requires relevant risk management qualifications.
- We require our branches to assign sufficient human resources to the risk management line in compliance with our head office's policies. We provide multi-level and targeted trainings to our risk management staff at all levels to enhance their professionalism.

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## RISK MANAGEMENT

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### *Emphasizing credit management and post-disbursement monitoring*

- We adopt a “two-person investigation” mechanism which requires a principal account manager and an investigator to conduct on-site investigations to verify that all the conditions precedent have been satisfied, and to sign the agreements and to affix the official seals before any loan disbursement.
- We strengthen our maturity management to ensure the timely recovery of our loans and interests. We also strengthen our post-disbursement management by increasing the intensity and frequency of post-disbursement inspections so that we can promptly discover risk alert signals and adopt preventive measures on a timely basis. We require our branches to assign sufficient qualified employees for post-disbursement management.
- We require our branches to centralize the management of all credit documentations and designate special personnel to manage the documents. We require our branches to divide the credit approval documents into three levels pursuant to the document management policies issued by our head office and adopt corresponding measures to maintain the records.

### *Establishing a comprehensive legal review, asset preservation and recovery mechanism*

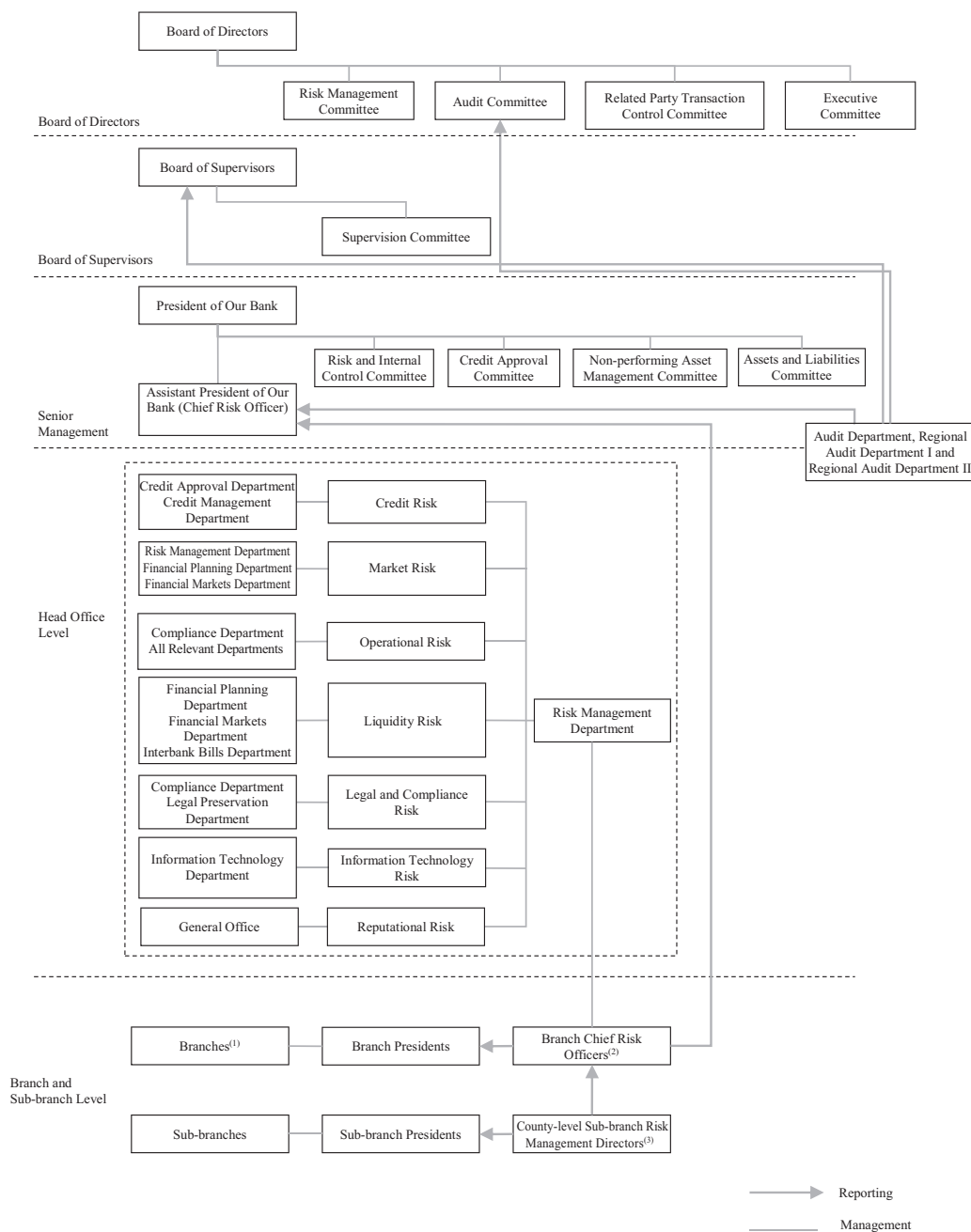
- We require our branches to strengthen legal preservation work by expanding their legal team. We require our branches to set up non-performing loan recovery centers and to allocate sufficient qualified recovery staff to such centers. For branches that have not established recovery centers, we urge them to establish one as soon as possible. We require each branch to develop its own recovery assessment mechanism based on its situation so as to enhance the recovery of the non-performing assets.

## **RISK MANAGEMENT STRUCTURE**

We have established a comprehensive bank-wide risk management structure based on business lines. Our top-down risk management model divides the risk management responsibilities by hierarchy and clearly defines the roles of the Board of Directors and its special committees, the Board of Supervisors and its supervision committee, the senior management and its special committees, the Risk Management Department and various other departments relating to risk management at our head office, the risk management departments at our branches and sub-branches, and the Audit Departments. For various types of risks and risk incidents, we have established clear and specific procedures for reporting and communication between business operation departments and risk management departments to ensure an efficient and effective coordination for our risk management work arrangement.

# RISK MANAGEMENT

As of the date of this prospectus, our organizational structure of risk management is as follows:



**Notes:**

- (1) All our branches have set up risk and internal control committees and credit review committees, as well as risk management departments, credit management departments and legal preservation departments.
- (2) All of our branch chief risk officers are directly dispatched by our head office.
- (3) Our county-level sub-branch risk management directors are directly appointed by our branches.

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## **RISK MANAGEMENT**

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### **Board of Directors and its Special Committees**

The ultimate responsibility for risk management rests with our Board of Directors. Our Board of Directors' responsibilities include (i) establishing a sufficient and effective risk management system to ensure that the Bank operates in a prudent manner and complies with relevant laws and government policies; (ii) setting clear risk tolerance levels and ensuring that the senior management adopts necessary risk management measures; (iii) monitoring and assessing the sufficiency and effectiveness of our risk management system; and (iv) reviewing internal control evaluation reports and identifying significant defects of our risk management system.

Our Board of Directors performs its risk management duties through the Risk Management Committee, the Audit Committee, the Related Party Transactions Control Committee and the Executive Committee, with support from management teams at our head office and branches.

#### ***Risk Management Committee***

Our Risk Management Committee is primarily responsible for (i) supervising our control over credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk, and legal and compliance risk; (ii) studying the macroeconomic policies, analyzing market changes and advising on the industry risk management; (iii) conducting periodic evaluation upon our risk management policies, management status as well as risk tolerance capabilities and advising on our risk management and internal control improvement; (iv) studying risk prevention solutions for significant risk events incurred in our operation and management; and (v) performing other responsibilities as authorized by our Board of Directors. The Risk Management Committee currently consists of six members and is chaired by Mr. WANG Jiong.

#### ***Audit Committee***

Our Audit Committee is primarily responsible for (i) conducting inspections on our compliance, accounting policies, financial reporting procedures as well as our financial wellbeing; (ii) organizing and leading our annual audit work; (iii) advising on the engagement or change of external auditors; (iv) ensuring the truthfulness, accuracy and completeness of the financial reports during the audit process and submitting them to the Board of Directors for review; (v) conducting inspections on our internal control system; (vi) performing other responsibilities in accordance with applicable laws and regulations; and (vii) performing other responsibilities as authorized by our Board of Directors. The Audit Committee currently consists of four members and is chaired by Mr. CHAN Ngai Sang Kenny.

#### ***Related Party Transactions Control Committee***

Our Related Party Transaction Control Committee is primarily responsible for: (i) managing our Related Party Transactions and formulating internal policies in accordance with relevant laws and regulations; (ii) identifying our Related Parties and reporting to our Board of Director and Board of Supervisors according to relevant laws and regulations; (iii) determining and reviewing our Related Party Transactions in accordance with relevant laws and regulations; (iv) submitting significant Related Party Transactions to our Board of Directors for approval, and submitting Related Party Transactions exceeding the authorization of our Board to the General Meeting for approval; (v) reviewing disclosure of significant Related Party Transactions; and (vi) performing other responsibilities as authorized by our Board of Directors. The Related Party Transactions Control Committee currently consists of five members and is chaired by Mr. LI Hongchang.



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## RISK MANAGEMENT

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### *Executive Committee*

Our Executive Committee is primarily responsible for (i) implementing thoroughly the Board's decisions on our development strategies, business plans, investment proposals, etc.; (ii) considering any single significant equity investment or disposal of less than 10% of our latest audited net asset value and handling relevant matters; (iii) reviewing annual authorization plans relating to business, personnel, and financial affairs, and reviewing our operational and management systems and code of business conduct; (iv) determining establishment of internal management organizations under the Board's authorization, formulating general layout plans, and determining establishment of our branches according to the Board's decision; (v) reviewing appointment and dismissal proposals of heads of internal management institutions and branches; (vi) preparing and formulating our medium and long term incentive schemes and implementation proposals, remuneration systems and policies; (vii) recommending candidates for the senior management; and (viii) other responsibilities as stipulated by the Articles or delegated by the Board. The Executive Committee currently consists of seven members and is chaired by Mr. DOU Rongxing, the Chairman of the Board.

For details of compositions and responsibilities of our Board of Directors, the Risk Management Committee, the Audit Committee and the Related Party Transaction Control Committee, please see "Directors, Supervisors and Senior Management — Committees under the Board" and "Appendix V — Summary of Articles of Association".

### **Board of Supervisors**

Our Board of Supervisors' responsibilities include (i) supervising the Board of Directors and senior management in improving our risk management system and (ii) supervising the Board of Directors and senior management in performing their duties. Our Board of Supervisors performs its risk management duties through the Supervision Committee.

### *Supervision Committee*

Our Supervision Committee is primarily responsible for (i) formulating supervision plans to monitor our financial activities and advising the Board of Supervisors; (ii) supervising our Board of Directors' establishment of prudent business operational concepts, principles and development strategies based on our practical needs; (iii) monitoring and inspecting our business decisions, risk management and internal control; and (iv) performing other responsibilities as authorized by our Board of Supervisors. The Executive Committee currently consists of seven members and is chaired by Mr. LI Xiaojian.

For details of compositions and responsibilities of our Board of Supervisors and the Supervision Committee, please see "Directors, Supervisors and Senior Management — Supervisors".

### **Senior Management and its Special Committees**

Our senior management's responsibilities include (i) implementing and executing the Board of Directors' decisions; (ii) formulating systemic policies, procedures and methods and taking appropriate risk management measures according to the risk tolerance level set by the Board of Directors; (iii) establishing and improving internal organizational structure and ensuring each of the internal control duties is effectively performed; (iv) monitoring and evaluating the sufficiency and effectiveness of our risk management system; (v) implementing regulatory authorities' policies and requests relating to internal control; and (vi) reporting the status of internal control to the Board of Directors and the Board of Supervisors on a periodic or *ad hoc* basis.

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## **RISK MANAGEMENT**

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At the senior management level, we have established four special committees relating to risk management including the Risk and Internal Control Committee, the Credit Approval Committee, the Non-performing Assets Management Committee and the Assets and Liabilities Committee.

### ***Risk and Internal Control Committee***

The Risk and Internal Control Committee is primarily responsible for (i) establishing and maintaining a bank-wide risk and internal control system, organizing and coordinating various risk and internal control tasks; (ii) reviewing important rules and systems relating to the bank-wide risks and internal control; (iii) reviewing bank-wide risk control policies, risk appetites, credit policies and internal control strategic planning; (iv) reviewing bank-wide assets quality control plans and risk impairment provision plans; (v) reviewing matters such as disposal of material credit assets and loan reduction and exemption; (vi) reviewing annual bank-wide internal control and compliance management work plans and confirming annual focal points; (vii) reviewing various bank-wide risk limits and risk capital allocation proposals; (viii) reviewing comprehensive risk analysis reports and concentration control proposals, including risk reports various business lines, branches and subsidiaries; (ix) reviewing new businesses and products launched by various business lines; (x) evaluating the risk control and internal control implementation of branches; (xi) studying and analyzing bank-wide material risk cases, management loopholes, systematic risks and making decisions, proposing responding measures and supervising their implementation; (xii) studying and analyzing the impact of material regulatory policy changes on our risk profile, and proposing corresponding measures; (xiii) consolidating the internal and external audit reports and regulatory reports, analyzing and studying deep-rooted problems relating to bank-wide risk management and internal control, and proposing rectifying measures; (xiv) reviewing the development and application of material risk and internal control management tools, including material risk measurement models and risk parameters; and (xv) other matters required to be reviewed by the Risk and Internal Control Committee. The Risk and Internal Control Committee currently consists of 27 members and is chaired by the President of our Bank.

### ***Credit Approval Committees***

The Credit Approval Committees are responsible for (i) reviewing strategies and important management policies relating to credit approval; (ii) making decisions on significant credit extension projects; (iii) reviewing important credit risk matters; (iv) reviewing and approving various types of credit applications within its authorization; and (v) conducting analysis on credit business development and risk management status based on laws, regulations and credit policies.

Depending on the amount of the credit applications and the complexity of the business, we randomly select three to nine commissioners from a total of 33 authorized commissioners to form the Credit Approval Committees.

### ***Non-performing Assets Management Committee***

The Non-performing Assets Management Committee is primarily responsible for (i) studying and reviewing significant policies and issues relating to non-performing assets management pursuant to our bank-wide risk strategies; (ii) reviewing non-performing loan write-offs for single accounts on or below RMB50 million; (iii) reviewing the restructuring of non-performing assets that is required to be approved by our head office; (iv) reviewing the transfer of non-performing assets that is required to be approved by our head office; (v) reviewing the interest rate reduction of non-performing loans; (vi) reviewing the collection and disposal of collateral in lieu of the loan repayment; and (vii) other projects that are required to be reviewed by the Non-Performing Assets Management Committee.

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## **RISK MANAGEMENT**

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The Non-performing Assets Management Committee currently consists of 15 members and is chaired by the Chief Risk Officer of our head office.

### ***Assets and Liabilities Committee***

The Assets and Liabilities Committee is primarily responsible for (i) setting bank-wide targets for assets and liabilities; managing the total amount and structure of assets and liabilities on and off balance sheet and the domestic and foreign currencies of the entire bank; (ii) timely preparing, reviewing and adjusting annual bank-wide business budget and financial budget according to macroeconomic changes and our business development strategies; (iii) managing capital adequacy ratio of the Bank, formulating capital replenishment plans for the Bank, and reviewing capital adequacy ratio reports of the Bank according to the target capital adequacy ratio and capital planning determined by the Board of Directors; (iv) setting liquidity risk limits for domestic and foreign currencies and on and off balance sheet in assets and liabilities, and formulating other details of liquidity risk management policy for the entire bank, including the maturity structure matching of assets and liabilities, large amount proactive indebtedness plans (excluding capital financing), liquidity risk management policy and procedures, stress tests and emergency management measures, according to the overall risk appetite as determined by the Board of Directors; sufficiently understanding and regularly assessing the level of liquidity risk at legal person level and status of its management; timely understanding significant changes in liquidity risk, and reporting to the President's Office at the head office and the Board of Directors; (v) setting the interest rate risk limit for structured bank accounts, formulating other details of interest rate risk management policy of structured bank accounts of the Bank, including net interest income of the Bank, various interest rate simulation scenario reports, interest rate sensitivity gap analysis reports, changes in value of investment portfolio of bank account, according to the overall risk appetite as determined by the Board of Directors; formulating and adjusting the pricing rules for transfer of internal and external funds, identifying contingent events of interest rate risk of bank accounts, organizing and implementing stress tests and reviewing stress test reports (the original limit applies until the approval of a new risk limit in the stress test report); (vi) reviewing the interest rate risk of new products and new businesses under the bank account; (vii) carrying out specific duties assigned by the office meeting of the President at the Bank's head office; and (viii) managing other affairs relating to asset and liability management. The Assets and Liabilities Committee currently consists of 18 members and is chaired by the President of our Bank.

### **Departments Relating to Risk Management**

#### ***Departments Relating to Risk Management at Our Head Office***

Our head office oversees all risk management activities and supervises risk management at our branches, sub-branches and village and township banks. We have established the following departments at our head office, each being responsible for managing risks in its respective area. The primary duties and responsibilities of these departments are set forth below.

#### ***Risk Management Department***

Our Risk Management Department is responsible for (i) planning and coordinating our bank-wide comprehensive risk management system; (ii) leading the bank-wide risk management work, monitoring, measuring and evaluating each type of risks; (iii) formulating bank-wide risk management policies and procedures and establishing bank-wide risk management and internal control system; (iv) leading the research of the New Capital Accord and ensuring the application and compliance with the New Capital Accord; (v) planning and implementing bank-wide risk measurement technologies; and (vi) implementing the responsibilities of the office of the Risk and Internal Control Committee.

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## RISK MANAGEMENT

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### *Credit Approval Department*

Our Credit Approval Department is responsible for (i) reviewing and approving our corporate loan, personal loan, interbank, wealth management and investment businesses that are exposed to credit risks; (ii) studying and analyzing credit risks relating to various industries and publishing periodic reports; (iii) formulating credit approval authorization plans and conducting dynamic management of such authorization; (iv) optimizing the credit approval procedures and setting uniform standards for credit review and approval; (v) performing the responsibilities delegated by the Credit Approval Committee and organizing credit approval meetings in a timely manner; and (vi) guiding and supervising the credit approval work at the branch level including team building, business training and quality assessment.

### *Credit Management Department*

Our Credit Management Department is responsible for (i) loan inspection management, fund disbursement management, post-disbursement management, maturity and collection management, loan risk classification management and documentation management for bank-wide credit businesses including corporate loans, personal loans, interbank and investment businesses that are exposed to credit risks; (ii) establishing and implementing credit risk monitoring and alert system, and initiating, confirming and handling credit risk alerts; (iii) assisting the Risk Management Department and the Credit Approval Department in monitoring the implementation of our credit policies and credit approval authorization plans; (iv) managing, classifying and reporting the information and statistics relating to credit risk management; (v) the daily maintenance, optimization and upgrade of our credit management system, and credit investigation management; and (vi) guiding and supervising the credit management work at the branch level including training, review, evaluation and qualification management.

### *Compliance Department*

Our Compliance Department is responsible for (i) formulating policies relating to internal control, compliance and operational risks and establishing a comprehensive compliance and operational risk management system that covers all business lines at our head office, branches and sub-branches; (ii) establishing a management mechanism that covers bank-wide compliance and operational risk identification, assessment, monitoring, alerting, analysis and reporting; (iii) planning, supervising and evaluating annual inspections for internal control and compliance and operational risks; (iv) coordinating bank-wide compliance and operational risk incident control and prevention and investigating, analyzing and reporting operational loss incidents; (v) continuously following up and studying regulatory development and providing compliance advice to the senior management and other departments; (vi) making compliance management procedures and operational manuals to ensure our business activities are in compliance with applicable regulations and industry standards; (vii) conducting compliance review on all management policies made by various business departments and coordinating the updates of these policies and procedures; (viii) conducting compliance review and compliance test for new policies, new businesses and new products; and (ix) conducting compliance trainings to all employees and conducting professional trainings to compliance and operational risk management staff.

### *Accounting Operation Department*

Our Accounting Operation Department is responsible for (i) managing risks arising from the accounting and clearing process of our business operations; and (ii) coordinating our risk management work relating to accounting, clearing of funds and branch operations.

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## RISK MANAGEMENT

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### *Financial Planning Department*

Our Financial Planning Department is responsible for (i) managing bank-wide liquidity risk including the identification, assessment, monitoring and control of the liquidity risks in our assets and liabilities; (ii) establishing and implementing liquidity risk monitoring and alert system; (iii) conducting stress tests for liquidity risks and formulating and implementing contingency plans; and (iv) report periodically to the senior management about liquidity risk management.

### *Financial Markets Department*

Our Financial Markets Department is responsible for (i) formulating rules, policies and operational procedures for our financial markets businesses; and (ii) managing market risks relating to our financial markets businesses based on our head office's credit policies and authorization limits.

### *Interbank Bills Department*

Our Interbank Bills Department is responsible for formulating and implementing policies, operational procedures and other risk management work relating to interbank bill businesses and related transactions.

### *Legal Preservation Department*

Our Legal Preservation Department is responsible for (i) managing legal matters, intellectual properties and litigation; (ii) managing and handling non-performing assets including procedure formulating and non-performing assets transferring, restructuring and disposal; (iii) coordinating with the Human Resource Department in conducting trainings and evaluating the relevant staff; (iv) guiding and supervising the establishment of branch liquidation centers; and (v) establishing comprehensive legal risk management system.

### *Information Technology Department*

Our Information Technology Department is responsible for (i) coordinating bank-wide development of our information technology systems including computer programs and smartphone applications relating to our E-Banking businesses; (ii) maintaining the stable operation of our information systems and dealing with information system contingencies and (iii) optimizing the functionality and improving the security of our information technology systems.

### *General Office*

Our General Office is responsible for managing our public relations and leading our bank-wide reputational risk management.

### *Audit Departments*

Our audit departments (including the Audit Department, Regional Audit Department I and Regional Audit Department II) are primarily responsible for our internal audit. Our audit departments are responsible for leading the review and assessment of the effectiveness of our business operations, risk management, internal control, compliance and corporate governance through standardized procedures.

## **Risk Management Framework at Our Branches and Sub-branches**

### *Risk Management-related Departments at Our Branches and Sub-branches*

We have established risk management departments in our branches and dispatched risk management directors to our county-level sub-branches, which are responsible for implementing our head office's risk management policies and procedures on the daily operations of these branches and

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## **RISK MANAGEMENT**

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sub-branches. We have developed standardized operation manuals for credit review and approval, credit rating, post-disbursement management and other relevant procedures and we require our branches and sub-branches to follow these manuals. We update the manual from time to time and distribute them to our branches and sub-branches on a timely basis. In addition, similar to our head office, all of our branches have set up corresponding credit management departments and legal preservation departments to manage post-disbursement issues and non-performing assets.

### ***Double-Line Reporting System***

We adopt a double-line reporting system. The branch chief risk officers directly report their work to the Chief Risk Officer at our head office and work under supervision of our head office in relation to quality and results of their work. They also report, and simultaneously to the presidents of the respective branches. Our branches dispatch risk management directors to their county-level sub-branches. These risk management directors are required to report their work to the branch chief risk officers, and simultaneously to the presidents of the respective sub-branches.

### ***Appointment and Rotation of Risk Management Personnel***

We rotate the existing branch chief risk officers by geographic areas to ensure their independence from any specific branch. Since September 2015, each appointment of the head of the branch risk management departments must be approved by the Human Resource Department at our head office and the dispatch of branch risk management directors must be filed with the Risk Management Department and the Credit Approval Department at our head office. We believe these measures will further strengthen our control over the risk management at the branch and sub-branch level.

### **Risk Management Systems for Timely Risk Monitoring**

We have established an integrated risk management structure to management each type of bank-wide risks, such as credit risk, market risk, liquidity risk and legal and compliance risk. We have also been utilizing various information technology systems to monitor our risks promptly.

- For credit risk management, we have established an integrated credit management system, among other systems. During the pre-loan investigations, we require all our employees, whether at our head office or at our branches and sub-branches, to log detailed information about the customers and the relevant transactions into our credit management system on a timely basis pursuant to our standardized operational procedures. The credit management system manages the credit approval procedures and only allows the authorized approvers to approve the loan applications within their respective limits.

For our post-disbursement management, we require our personnel to conduct inspections and record data in relation to financial performance, most recent statistics and research results of the relevant parties into our credit management system. Based on these data, our head office is able to analyze our loan portfolio and manage bank-wide credit risks.

The credit management system also allows us to issue risk monitoring alerts upon any triggering events and conducting regulatory filings in compliance with the applicable laws and regulations. In addition, we also plan to upgrade our risk monitoring and alert system so that it will connect with our big-data information technology system.

- For market risk management, we review various statements relating to our investments generated by our CFS system. Our Risk Management Department, Financial Planning Department and Financial Markets Department at the head office use these statements to

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## RISK MANAGEMENT

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conduct gap analysis, duration analysis, stress test and scenario analysis in measuring and monitoring market risk. In addition, our Financial Markets Department reviews data generated by third party database to monitor the material fluctuation of the fair value of major active debt securities.

- For liquidity risk management, we review various statements and spreadsheets relating to liquidity risk management generated by the ODS Platform. For instance, our Financial Planning Department reviews the accumulated cash gap rate chart every day to manage our cash flow and position limit. We also frequently analyze maturity profiles of our assets and liabilities and monitor all liquidity ratios.
- For legal and compliance risk management, we closely monitor our key regulatory indicators the latest development of laws and regulations publish legal and compliance risk notifications on our internal network to remind our employees to prevent and reduce the occurrence of risk incidents.

### CREDIT RISK MANAGEMENT

Credit risk refers to the risk of loss that may arise from default by, or downgrade of credit rating of, an obligor or counterparty, or from its reduced capacity of fulfilling its contractual obligations. We are exposed to credit risks primarily associated with our corporate loan business, personal loan business and financial markets business.

We have established and continue to improve a bank-wide credit risk management system to identify, assess, measure, monitor, mitigate, and control risks that may arise from each step of the entire credit business process. We have formulated standardized policies and procedures for credit review and extension management. We seek to improve our overall credit risk management capabilities through a variety of measures, such as implementing a vertical credit risk management system, establishing a five-level eleven sub-categories loan classification system and enhancing our capacity to utilize information technology to manage our credit risk.

#### Credit Policy Guidelines

We are dedicated to striking a balance between sound loan growths and maintaining a prudent culture of risk management. Based on the local, domestic and international economic conditions and the development of regulatory environment, we put together annual credit guidelines to provide detailed guidance for our credit risk management. Our credit guidelines include overall credit policies and specific guidelines for different industries, business lines, customer types and geographic regions. In addition to a regular annual review and update, we also issue notices to respond to changes in government policies, economic environment and our own risk preference.

In formulating our credit policies, we study the macroeconomic environment in Henan Province, China and other major countries and analyze the risks and uncertainties that might be relevant to our operations. We also follow closely the development in local and national economic development plans, financial regulations and monetary policies and adjust our credit guidelines accordingly. For instance, in accordance with the “One Belt, One Road (一帶一路)” strategy and Henan Province’s plan to participate in establishing the Silk Road Economic Belt, we have identified Zhengzhou as the major hubs to explore business opportunities. We prioritize extending our credit in these cities and we believe we will minimize our credit risk by following the governmental planning. On the other hand, we adopt a prudent credit extension strategy and limit our credit exposure to industries with unfavorable growth prospects, such as the industries with heavy pollution, high energy consumption or overcapacity (兩高一剩).

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## RISK MANAGEMENT

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We have developed industry-specific corporate credit guidelines to classify industries into five categories: “active support”, “regular support”, “cautionary support”, “strict limit”, and “policy-sensitive”. We allocate with priority our credit resources to, and encourage the expansion of credit exposure for, the “active support” industries, such as the industries relating to modern services, new information technology, modern agriculture and transportation. We support, with preference, the “regular support” industries, such as the industries relating to pharmaceuticals and hotel and catering. Our “cautionary support” category includes the industries relating to coal, nonferrous metal, retail, construction, chemical, textile and paper making. Our “strict limit” category includes the industries relating to steel, cement, flat glass, electrolytic aluminum and photovoltaic. For the “policy-sensitive” category, which includes loans to the real estate industry and local governmental financing vehicles, we have adopted a “customer list” management policy and other specific policies tailored for these industries. For details, please see the subsections headed “— Credit Risk Management — Credit Risk Management for Corporate Loans - Portfolio Management — Credit Risk Management for Real Estate Industries” and “— Credit Risk Management — Credit Risk Management for Corporate Loans — Portfolio Management — Credit Risk Management for Loans to Local Government Financing Vehicles” in this section. Our credit policies may also vary in different geographical regions based on local situations. For example, we may support a particular industry in Zhengzhou but may not support the same industry in Kaifeng.

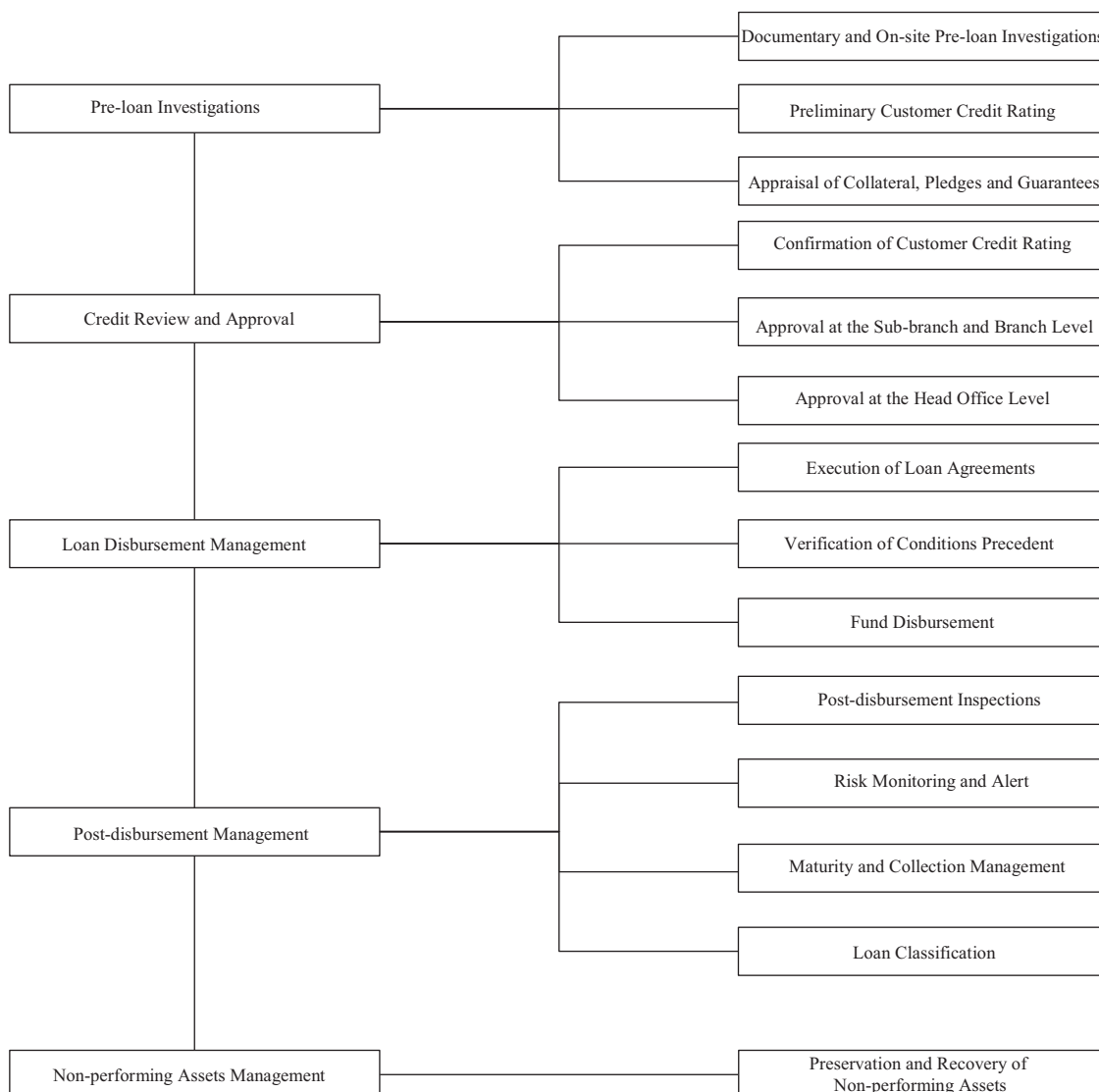
For loans to small and micro enterprises, personal loans and micro loans, we have also formulated specific policies based on products, customers and industries and generally update these policies on an annual basis.



# RISK MANAGEMENT

## Credit Risk Management for Corporate Loans

Our credit risk management procedures for corporate loans include pre-loan investigations, credit review and approval, loan disbursement management, post-disbursement management and non-performing assets management. The following flowchart illustrates the process of the credit risk management for our corporate loan business.



### ***Pre-Loan Investigations***

#### *Documentary and On-site Pre-loan Investigation*

After a corporate banking customer submits a credit application, we start our pre-loan investigation process. We generally require the applicant to provide necessary supporting documents, such as its organizational documents, business certificates and recent financial statements. We also require the applicant to provide its ownership certificates and valuation reports for collateral if the loan is secured, and the information and the relevant supporting documents about its guarantors, if the loan is guaranteed. Our account managers will review relevant documents pursuant to our established criteria and verify their authenticity and effectiveness.

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## RISK MANAGEMENT

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In addition to documentary investigations, we also require on-site due diligence as part of our pre-loan investigation. In order to prevent operational risk from our account managers, we adopt a “two-person investigation” mechanism which requires two account managers to conduct on-site investigations. Each of the two account managers visits the borrower’s business premises and inspects their manufacturing equipment, inventories, value-added tax invoices and utility consumption to check their actual business operations.

Our account managers carefully examine the customer’s shareholding structure, credit history, operational status, compliance status, industry development, regulatory environment and financial condition. Our account managers also conduct an analysis of the customer’s use of proceeds and resource for repayment. Based on the preliminary analysis of the customer profile, our account managers prepare a credit investigation report. We require the two account managers to sign the credit investigation report and they have joint responsibility for the authenticity, completeness and effectiveness of the information in the credit investigation report.

### *Customer Credit Rating*

Upon the receipt of all the necessary documents to our satisfaction and the completion of the pre-loan investigations, our account managers accept the credit application and proceed with the credit rating. A credit rating is a prerequisite for credit extension to corporate banking customers.

We use an electronic credit rating system developed by a major electronic financial data provider. This system includes 33 rating models which take into account of financial and non-financial indicators as well as scales of the loan applicant. Once our account managers enter the relevant financial and operational information of the loan applicant into this system, the system will apply one of these rating models based on the applicant’s industry and automatically generate a preliminary credit rating. We rate our customers in ten categories, namely AAA, AA, A, BBB, BB, B, CCC, CC, C and D.

Our credit rating staff conducts review on the preliminary credit ratings and confirm the ratings within their authorization. The branch credit rating management departments have the authority to approve a rating of A or below, while the head office Credit Approval Department has the authority to approve AAA and AA ratings. An upgrade of rating must be approved by the Credit Approval Department at our head office. Our rating experts may separately review the rating on their own and request a change of rating if they have reasonable grounds to doubt the accuracy of automatic rating. Requests to change the rating are subject to approval by the authorized approvers at our head office and branches.

Subsequent to the loan disbursement, we generally re-rate each customer who has credit balance with our Bank on an annual basis. We will adjust the credit rating of a borrower if there are any significant changes in its financial condition or business operations or if there are any other events that may materially and adversely affect its ability to repay our loans.

### *Appraisal of Collateral, Pledges and Guarantees*

Most of our corporate loans are secured by collateral, pledges or third-party guarantees. For loans secured by collateral, we have formulated internal policies setting forth the types of acceptable and non-acceptable collateral, the procedure of appointing appraisers and the maximum loan-to-value ratios for various types of collateral. We require the mortgagors or pledgers to provide detailed information and supporting documents about the collateral including (i) the name, quantity, quality and address of the collateral, (ii) the certificates of ownership, the evaluation report and other relevant

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documents about the collateral, (iii) the organizational documents, financial statements, tax certificates and the necessary shareholders' resolutions or board resolutions for corporate mortgagors or pledgers, (iv) the identification documents for individual mortgagors or pledgers and (v) signed declarations about the mortgages or pledges.

We usually select third-party appraisers to independently determine the value of the collateral and issue valuation reports. We require our Fund Disbursement Center to randomly select third-party appraisers from our list of eligible appraisers. Unless otherwise approved by the branch chief risk officers, we do not allow our business departments to appoint appraisers on their own, otherwise the valuation reports issued by these ineligible appraisers will not be accepted by our Bank.

To set maximum loan-to-value ratios for different types of collateral, we take into account various factors including credit risks relating to the loans, valuation of collateral, depreciation of collateral, applicability of collateral and fluctuation of collateral prices. The maximum loan-to-value ratios for the principal types of collateral securing our corporate loans are as follows:

Type of Collateral	Maximum Loan-to-Value Ratio
<b><i>Mortgages</i></b>	
Land use rights .....	60%
Office buildings .....	60%
Constructions for factory and office use .....	40-50%
Regular residential buildings.....	70%
Villa and high-end residential buildings .....	60%
Shopping malls and commercial properties.....	60%
<b><i>Pledges</i></b>	
Cash and cash equivalents.....	85-90%
Bank acceptance bills.....	80-90%
Commercial acceptance bills .....	50%
Bonds .....	85-90%
Shares of listed companies .....	40-50%
Shares of unlisted companies .....	40%
Investment Funds .....	50-90%
Certificates of ownership .....	70-85%
Receivables.....	70-90%
Chattel ownership and usage rights .....	70%
Precious metals.....	90%
Forest ownership and usage rights.....	30%
Equipment.....	30-40%

For guaranteed loans, we conduct a comprehensive analysis on the guarantors' background to determine the capacity and reliability of the guarantee. We generally require that the borrower and guarantor are jointly liable for our loans. For individual guarantors, we examine their qualification to provide guarantees, credit history, repayment abilities, economic connections with the loan applicant and other relevant factors. For entity guarantors, we generally require them to have (i) satisfactory operational and financial status and credit rating that meet our standards, (ii) clean credit records, (iii)

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## RISK MANAGEMENT

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strong assets position, and (iv) written authorization for providing the guarantee. We require our guarantors to strictly follow the legal requirements, such as obtaining the necessary shareholders' resolutions, board resolutions and power of attorney, to ensure the effectiveness of the guarantee agreements and other ancillary agreements.

### *Credit Review and Approval*

Our credit review and approval features two models, namely (i) group review and approval by credit approval committees and (ii) individual review and approval by authorized approvers. We generally require group review and approval by a credit approval committee for (i) first-time customers who apply for unsecured loans, (ii) large amount loans with maturity of over one year, (iii) loan applications requiring complex decision making, such as real estate development loans, fixed assets loans, commercial property loans and restructuring loans and (iv) other complex and significant loans that the authorized officers deem necessary for group review and approval.

The group review and approval process usually requires a two thirds vote by participating committee members. The President of our Bank, the Chief Risk Officer at our head office or the branch presidents have veto rights for these approvals at their respective levels, but do not have rights to overturn any group decisions that deny loan applications. Our small enterprise loans and micro loans can be approved by special credit approval committees, which allow any single participating committee member to veto the loan applications. For the individual review and approval process, we allow the authorized approvers, including the Chief Risk Officer at our head office, the corresponding chief risk officers at branches and other authorized approvers, to independently approve loan applications within their respective authorized limits. Our head office dynamically monitors the authorization limits of the committees, departments and individuals and makes annual adjustment based on their risk management levels, quality of assets and operational environment.

We divide our corporate loan credit review and approval procedures into three categories, which are (i) general- and low-risk corporate loans for large and medium enterprises (the same procedure also applies to low-risk corporate loans for small enterprises), (ii) general-risk corporate loans for small enterprises and (iii) high risk loans (our credit review and approval procedure for high risk loans applies to all types of enterprises, regardless of their size, and individuals).

We have a uniform standard to determine the risk levels of the credit applications. A credit application is deemed to be low risk if it satisfies all the three conditions below: (i) the security is cash or cash equivalents or the loan is guaranteed by a recognized bank on our interbank credit list; (ii) the collateral or guarantee is sufficient to fully cover the debt (including the interest and surcharges); and (iii) the collateral or guarantee does not have any legal defects or policy risks. A credit application is deemed to be high risk if it involves any of the following: (i) any product that is required to be approved by the head office according to the relevant government regulations; (ii) any industry or product type that is under strict scrutiny according to our internal credit policies; (iii) any product that has a complex structure or a lengthy maturity; or (iv) other products that our head office deems to be high risk. A credit application that belongs to neither low risk nor high risk categories is deemed to be at the general risk level.

We take into consideration the aforementioned factors in determining the risk levels and then apply an appropriate credit review and approval procedure. Our review and approval procedures may also vary for different applicants based on their credit history, business operations, financing plans, industries, collateral types and the credit amount they apply for. Each procedure may involve the group review and approval model and the individual review and approval model, the details of which are described below.

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## RISK MANAGEMENT

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### *General- and Low-risk Corporate Loans for Large and Medium Enterprises*

For general- and low-risk corporate loans for large and medium enterprises that are originated from our branch or sub-branch level, our credit review and approval process starts from our sub-branches or the originating business departments at our branches. After reviewing the investigation report prepared by the account managers, the head of the originating business department submit the loan application to risk managers at the same level for a preliminary review, who then submit the same to the authorized credit approvers at the same level for a secondary review. The authorized credit approvers at the branch level can (i) deny the application, (ii) if within their authorized limits, approve the application or (iii) if beyond their authorized limits, submit the application to the branch credit approval committee. Each of the loan applications approved by the credit approval committee is submitted to the relevant branch president, who has the power to veto the application.

The loan application that exceeds the authorized limits of the branch credit approval committee is submitted to our head office. The risk managers at our head office conduct a preliminary review and the authorized credit approvers conduct a secondary review and can (i) deny the application, (ii) if within their authorized limits, approve the application or (iii) if beyond their authorized limits, submit the application to the Credit Approval Committee at our head office. Depending on the loan amount, the President of our Bank or the Chief Risk Officer at our head office has the power to veto the application.

For general- and low-risk corporate loans for large and medium enterprises that are originated from the business departments at our head office, our credit review and approval process starts from the head office level with the identical procedures as described in the above paragraph.

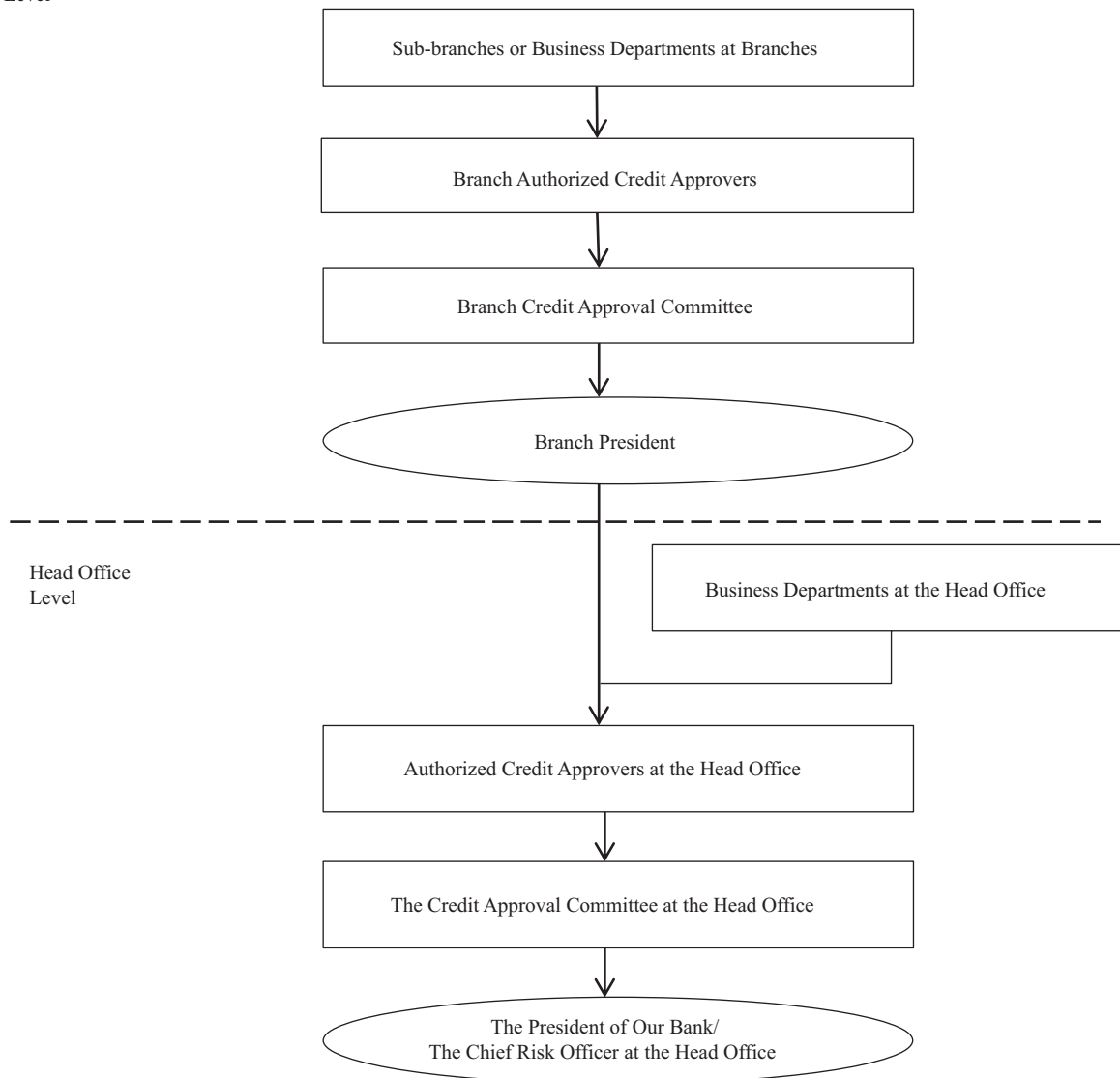
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## RISK MANAGEMENT

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The diagram below sets forth the review and approval procedure for our corporate loans for large and medium enterprises as of the date of this prospectus:

Branch and Sub-branch  
Level



□ have approval right

○ have veto right

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## RISK MANAGEMENT

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### *General Risk Corporate Loans for Small Enterprises*

#### Sub-branches or Business Departments at Branches

For general risk corporate loans for small enterprises that are originated from our branch or sub-branch level, our credit review and approval process starts from our sub-branches or the originating business departments at our branches. After reviewing the investigation report prepared by the account managers, the dispatched risk management directors, if applicable, of the originating branch business department can (i) deny the application; (ii) if within its authorized limit, approve the application or (iii) if beyond its authorized limit, submit the application to the special credit approval committee for small enterprises (if applicable).

#### Branch Small Enterprise Departments (if applicable)

If the relevant regional center has not set up a special credit approval committee for small enterprises or if the loan application exceeds the authorized limit of such special credit approval committee, the loan application will be submitted to chief risk officer or the credit approval committee in the branch small enterprise department (if applicable) depending on their respective authorized limits, whose approval is subject to the veto rights of the head of such branch small enterprise department.

#### Credit Approval at the Branch Level

The loan application that exceeds the authorized limit of the credit approval committee of the branch small enterprise department is reviewed at the branch level, where the authorized credit approvers or the credit approval committee at the same level can approve the loan application within their respective authorized limits. Each of the loan applications approved by the credit approval committee is subject to the veto rights of the branch president.

#### Credit Approval at the Head Office Level

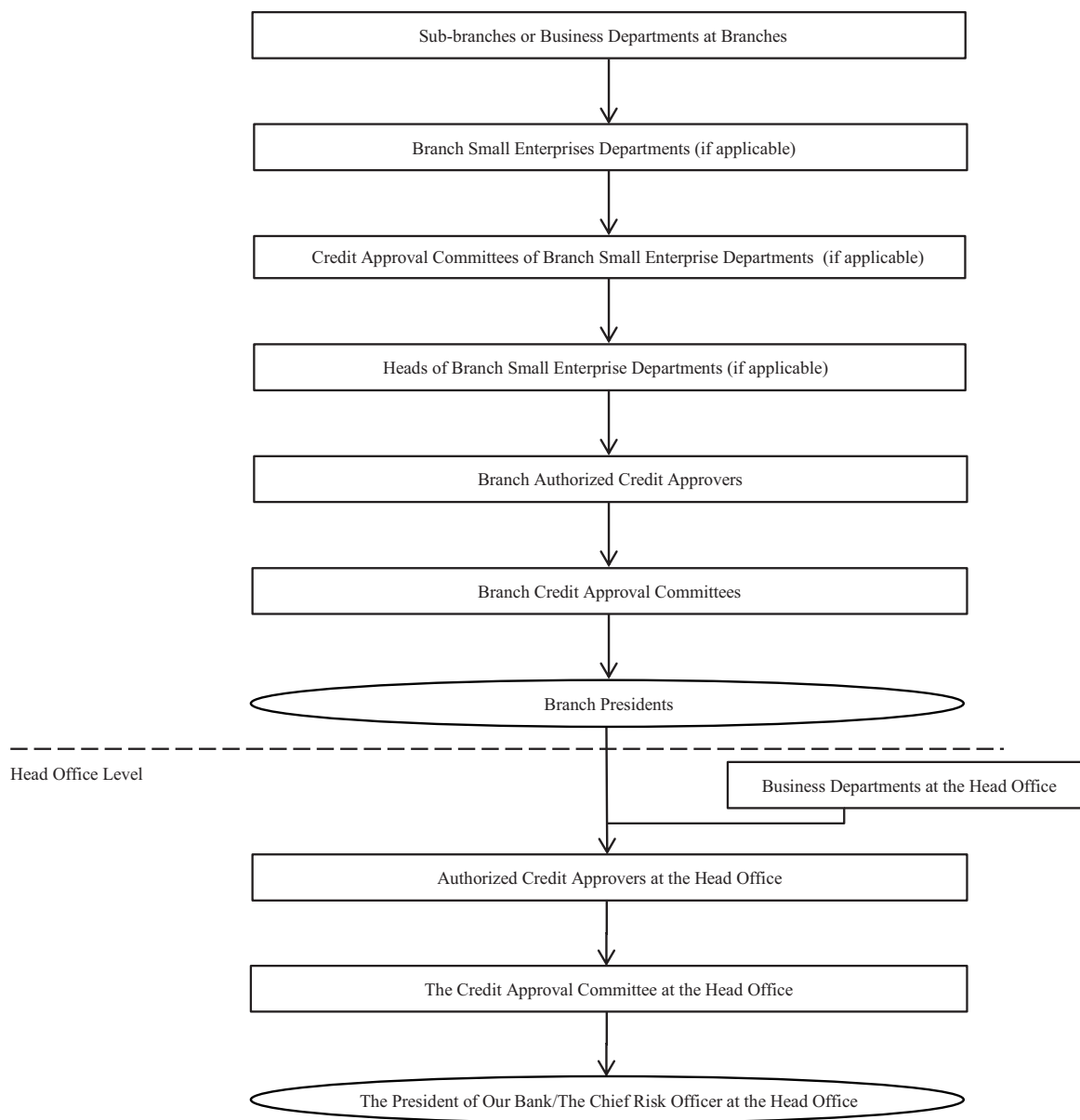
The loan application that exceeds the authorized limit of the branch credit approval committee is submitted to our head office. The risk managers at our head office conduct a preliminary review and the authorized credit approvers conduct a secondary review and can (i) deny the application, (ii) if within their authorized limits, approve the application or (iii) if beyond their authorized limits, submit the application to the Credit Approval Committee at our head office. Depending on the loan amount, the President of our Bank or the Chief Risk Officer at our head office has the power to veto the application approved by the Credit Approval Committee.

For corporate loans for small enterprises that are originated from the business departments at our head office, our credit review and approval process starts from the head office with the identical procedures as described in the above paragraphs.

## RISK MANAGEMENT

The diagram below sets forth the review and approval procedure for our corporate loans for small enterprises as of the date of this prospectus:

Branch and Sub-branch Level



□ have approval right

○ have veto right



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## RISK MANAGEMENT

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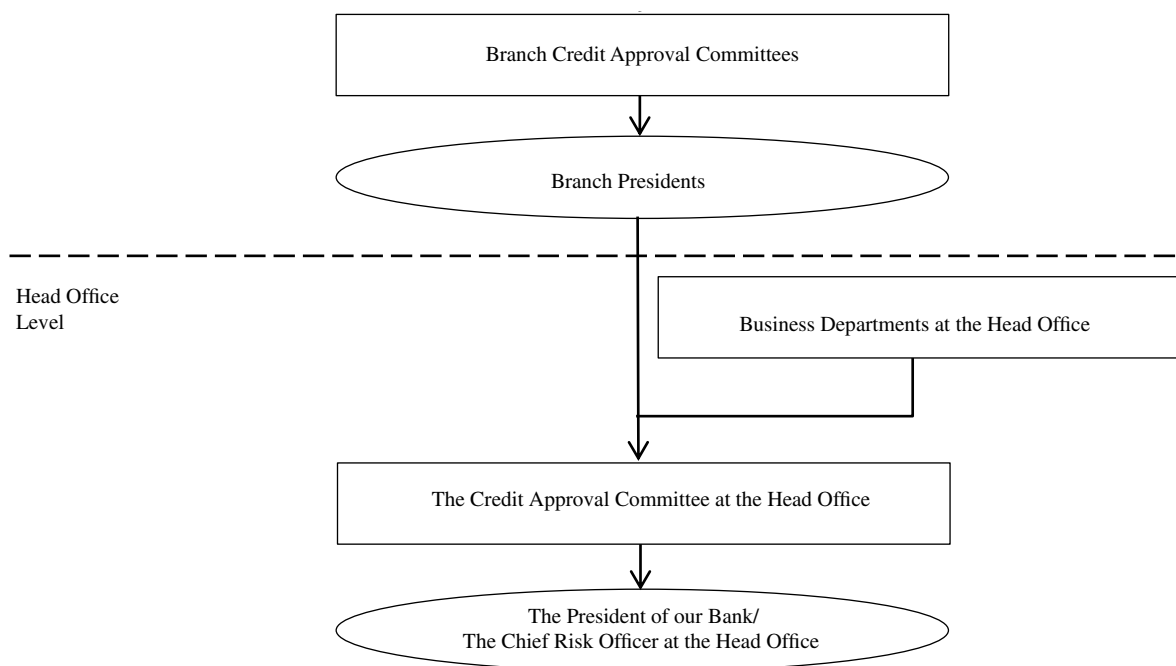
### *High Risk Loans*

The credit approval procedure for our high risk loans apply to all types of enterprises, regardless of their size, and individuals. For high risk loans that are originated from our branch or sub-branch level, our credit review and approval process starts from the branch level and we require the applications to be reviewed by the relevant branch credit approval committees, which may (i) reject the applications and (ii) pre-approve the applications if within their authorized limits. Each of the pre-approved loan applications is submitted to the relevant branch presidents, who have veto rights for these applications. We require all the pre-approved high risk loans that have survived the branch presidents' veto to be reviewed by the Credit Approval Committee at our head office which has the authority to issue a final approval. Depending on the loan amount, the President of our Bank or the Chief Risk Officer at our head office has veto rights for these final approvals of high risk loans.

For high-risk loans that are originated from the business departments at our head office, our credit review and approval process starts from the head office level with the identical procedures as described in the above paragraph.

The diagram below sets forth the review and approval procedure for our high risk loans as of the date of this prospectus:

Branch and Sub-branch  
Level



□ have approval right

○ have veto right

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## **RISK MANAGEMENT**

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### ***Loan Disbursement Controls***

#### *Execution of Loan Agreements*

After the approval of a corporate loan application, we enter into a loan agreement and, if applicable, an agreement of collateral, pledges or guarantees with the borrower and the guarantor based on our standard forms. Any deviation from the standard forms must be approved by our Legal Preservation Department.

#### *Verification of Conditions Precedent*

We have established a standardized operational procedure for corporate loan disbursement. Our Credit Management Department is responsible for the overall management and monitoring of our corporate loan disbursement. Our account managers are responsible for handling the post-approval matters including registration of collateral and purchasing insurance of collateral, etc. We require two persons to independently conduct a review of these post-approval matters. Our disbursement reviewers review the compliance, legality and completeness of the whole set of disbursement documents including the loan agreement, the ancillary agreements, the required evaluation reports, the necessary corporate documents and other relevant materials to ensure that all the conditions precedent specified in the credit approval are satisfied.

#### *Fund Disbursement*

Only upon the approval by the disbursement reviewers and authorized approvers, our Accounting Department or the relevant business departments then commence the loan disbursement in accordance with our accounting procedures.

### ***Post-disbursement Management***

Our post-disbursement management consists of post-disbursement inspection, risk monitoring and alert, maturity and collection management and loan classification.

#### *Post-disbursement Inspection*

We conduct initial follow-up inspections, routine inspections and special inspections after the disbursement of the loans. We require our account managers to conduct initial follow-up inspections within seven days after the disbursement of the loans to check the use of proceeds and record relevant information to our credit management system. We require our account managers to conduct routine inspections on customers with loans classified as normal at least once per quarter, and on customers with loans classified as special mention or below at least once per month. For key customers, which include multi-regional group customers, strategic customers, ten largest loan customers and customers with risk alerts that their loans of a significant amount could be downgraded to non-performing, we require the credit management departments to participate directly in the inspections for these key customers. In addition, we may also conduct special inspections on any particular industries, areas, products or customers from time to time.

During the routine post-disbursement inspections, we check our customers' information, including but not limited to therein (i) basic corporate information including their certificates, timeliness of financial statement filings, industry developments, shareholding structure, management changes, loans with other banks, material financial disputes and material non-compliance incidents, (ii) use of proceeds, (iii) operational status (iv) financial condition including financial statements, financing structures and financial ratios, (v) actual controlling persons and the related parties (vi) project progress (for fixed asset loans), (vii) settlement volume and deposit level with our bank, (viii)

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## RISK MANAGEMENT

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credit status with other banks, (ix) status of guarantees including the financial status of the guarantors and the validity of the guarantee agreement, (x) status of the collateral including the ownership, valuation and physical status of the collateral and (xi) industry developments including changes in supply and demand dynamics, changes in laws, regulations and policies and negative news.

In addition to on-site inspections, we also carry out off-site monitoring by analyzing information from the PBoC's Credit Reference System, the CBRC Customer Information Reporting System and our own risk alert management system leveraging the information from 3rd party sources including the Internet and media. These resources provide useful information about the credit ratings or operational status about our customers. If we identify any problems, such as material adverse changes in the customers' financial condition, the misappropriation of the loan proceeds or the devaluation of the collateral, we will take corresponding measures including without limitation requiring the borrowers to increase or replace the collateral and accelerate the loans.

### *Risk Monitoring and Alert*

To identify and mitigate credit risks at an early stage, we have established a three-level risk alert system for all our loans.

- The level one risk alert signal indicates extremely emergent situations, such as the disappearance of actual controlling persons, directors or core management of the borrowers or significant litigation or disputes involving the borrowers. As the risk to our Bank is certain in this scenario, our Bank must take immediate actions to control the risks and then explore other measures.
- The level two risk alert signal indicates emergent situations, such as a significant decrease in revenue or a significant deviation from the core businesses of the borrowers. In this scenario, our Bank must evaluate the incidents as soon as possible and take appropriate measures based on the evaluation results.
- The level three risk alert signal indicates non-emergent situations that warrant further investigations, such as frequent turnover of management personnel of the borrowers. In this scenario, our Bank must conduct further investigations to understand the risk status of the borrowers.

If the employees at our business departments or risk management departments discover any risk incidents during their on-site inspections or off-site analysis of information, they may initiate the risk alerts by reporting to the heads of their departments and recording the relevant information in our system.

For risk alerts at the branch level, the branch credit management departments will lead the relevant branch business departments to formulate action plans and monitor the implementation of these plans. If the risk alerts indicate a significant risk and a complex action plan is required, the branch credit management departments may involve the branch credit approval committee in the decision making process. For risk alerts at the head office level, our Credit Management Department will lead the relevant business departments at our head office to deal with the risk incidents. Depending on the situations, our measures include, among others, suspending fund withdrawal, requesting additional collateral, strengthening monitoring and inspection, accelerating the loans, disposal of the collateral and freeze the relevant accounts.

Unless the risk alerts are found to be inaccurate, we require the issues underlying these risk alerts to be fully resolved before the risk alerts can be dismissed, otherwise the relevant businesses will be restricted based on their risk levels. We have established a detailed procedure setting forth the reporting and approval requirements for dismissal of the risk alerts.

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## RISK MANAGEMENT

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### *Maturity and Collection Management*

We require our account managers to remind the borrowers of timely payment of interest through phone, messages or letters within ten days before the due dates of the loans. During the last 15 days of each quarter, we require the originating business departments to analyze the status of each of the loans due in the next quarter and make corresponding collection plans.

For overdue loans, we require our account managers to send written reminders to the default customers and guarantors, if any, within three days after the due date and at least once a month afterwards until all the past due principals and interest are paid in full. If we do not receive any receipts of the written reminders, we may collect the payment in person, serve notarized notices or file lawsuits, as appropriate, to toll the statute of limitation. For customers that wish to repay the loans before the due date, we require these customers to submit applications to our Accounting Department and other relevant departments.

### *Loan Classification*

Loan classification is an important part of our ongoing loan monitoring. For risk management purposes, based on the CBRC five-level loan classification (normal, special mention, substandard, doubtful and loss), we divide our credit assets into five level and 11 sub-categories, including two under “normal”, three under “special mention”, three under “substandard”, two under “doubtful” and one under “loss”, and consider the loans classified below “substandard+” as non-performing loans. The factors we consider in classifying our loans include but not limited to the repayment ability, records and willingness of the borrowers, the profitability of the underlying projects, the collateral of the loans, the default period of the loans and the legal liabilities of parties in relation to the repayment of the loans.

Our eleven sub-category loan classification represents our prudent and delicate post-disbursement management principles and enables us to identify potential credit risk factors in a clearer and more accurate manner. Our eleven sub-category loan classification helps raise our attention and improve our management capacity on problematic loans.

Our branch credit management departments conduct a preliminary classification for corporate loans based on the documents prepared by the business department staff and submit the results to the authorized approvers at the branch level for their approval, and then submit the classification to our head office for final confirmation. Our head office has the authority to adjust the classification any time.

In principle, we reclassify our corporate loans at least once per quarter based on our monitoring of the loans. Any upgrade or downgrade among the five categories must be submitted to our head office for final approval on a monthly basis. If a risk alert is triggered, our business departments are required to report to the branch credit management departments for reclassification of the relevant loans within three business days.

### *Non-performing Assets Management*

Our Credit Management Department proactively monitors bank-wide non-performing assets and periodically transfers them to the Legal Preservation Department for further handling. The non-performing loans that are downgraded to sub-standard or below must in principle be transferred to the Legal Preservation Department within 10 business days after the confirmation of the reclassification. Our Credit Management Department may choose to delay such transfer if it deems more favorable for the originating business department to liquidate the loans, but such delay in principle may not be extended beyond one year after the default.

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## RISK MANAGEMENT

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Our Legal Preservation Department closely monitors the assets of the debtors and the status of the collateral to prevent fraudulent transfers. Based on the balance of the non-performing assets and the status of the underlying projects, our Legal Preservation Department assigns these non-performing assets to different liquidation groups. Each of the liquidation groups consists of at least two persons and must make collection efforts at least once a month in principle. We also require our branch legal preservation departments to hold routine non-performing assets meetings with relevant departments at least once a month discussing and resolving the issues relating to non-performing assets.

Based on the specific circumstances of the debtors, we formulate tailored restructuring plans or disposal measures for these non-performing assets. We seek to recover non-performing assets through multiple means including debt reduction or waiver, debt restructuring, assignment of creditor's rights, payment in kind and legal proceedings. We may also write off qualified non-performing assets according to the requirements of MOF and make tax adjustment according to the MOF rules.

- *Debt reduction or waiver.* We may reduce or waive the default debtor's obligation to repay the principal, interest or penalties if the debtor, its guarantor or any other third party agrees to repay the obligation in cash or quality assets in a timely manner. Such reduction or waiver of debt obligation must be approved by the Non-Performing Assets Management Committee or the Risk and Internal Control Committee at our head office.
- *Debt restructuring.* Based on the debtor's repayment ability, we may restructure the debt by modifying certain loan terms, such as extending the maturity, reducing or waiving the interest, replacing the debtor and changing the collateral or guarantors. If the debt is assumed by a new debtor, we generally require the new debtor to have more stable cash flow and stronger risk bearing ability than the existing debtor. For changing of the collateral or guarantor, we generally require the new collateral to have more liquidity value than the existing collateral, and require the new guarantor has stronger repayment ability than the existing guarantor. All the debt restructuring must be approved by authorized approvers, credit approval departments, credit approval committees or non-performing assets management committee depending on their authorization, in accordance with our credit approval procedures. We strictly follow these procedures and carefully control new credit extension in the debt restructuring.
- *Assignment of the creditor's rights.* We may partially or fully assign our creditor's rights under the agreements in connection with the non-performing assets to third parties. Before the assignment of the creditor's rights, we are required to conduct due diligence on the operation, repayment ability and collateral status of the debtor, and to use a professional asset appraisal company meeting our qualification requirements to evaluate the base price of the assets to be transferred. We usually assign our creditor's rights for non-performing assets by (i) tender, (ii) bidding and (iii) public auction, etc., according to the regulations of the MOF and the CBRC.
- *Payment in kind.* We may accept debtor's repayment in kind, such as ownership or other rights in connection with land and real properties, if they are unable to pay mature debts in cash.
- *Legal proceedings.* We may initiate legal proceedings or arbitration, or apply for attachment or compulsory execution orders to collect debts.
- *Write-off.* We may also write off qualified non-performing assets according to the requirements of MOF after careful review, and make tax adjustment according to the MOF rules.

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## RISK MANAGEMENT

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### *Portfolio Management*

We have established policies about credit risk management for certain key risk areas including local government financing vehicles, the real estate industry and industries with overcapacity.

#### *Credit Risk Management for Loans to Local Government Financing Vehicles*

We impose strict control on credit extension to local government financing vehicles. We strengthen our risk management by limiting the total amount of credit for local government financing vehicles and optimizing our assets structure. We have adopted the following measures:

- We only extend credit to government institutional customers that are contractors to governmental construction projects located in regions where the local governments are in a strong financial position: (i) we prioritize our support on government institutional customers at the level of the Henan Government, the Zhengzhou municipal government and the urban area governments in Zhengzhou; (ii) we support with preference the financing vehicles at the level of the Luoyang municipal government, the urban area governments in Luoyang and other municipal governments; (iii) support with caution government institutional customers in the top 100 counties in China in terms of economic development and in the counties directly governed by provincial governments; and (iv) support with caution the customers in other urban areas or counties after evaluating their financial strength.
- We prioritize our support on significant construction projects, such as large-scale infrastructure construction projects and public service project with stable demands, stable cash flows, flexible pricing mechanism and high marketization.
- We prefer the land and buildings as collateral or third party guarantees in our financing plans. For projects that rely on governmental purchase or governmental spending, we require the financing projects to possess all required approvals and require the government to provide relevant financing in their budget according to legal procedures.
- We encourage the use of public-private partnership, industrial funding or interbank channels to provide financing. We require the use of proceeds, maturity periods and payment methods to comply with all applicable regulations.

We closely monitor regulatory policies in relation to local government financing vehicles and proactively adjust our internal risk management policies accordingly. We monitor the status of the underlying projects and the cash flows generated by such projects and analyze the statistics relating to our credit extension to local government financing vehicles.

The CBRC requires all PRC banks to classify their loans to local government financing vehicles based on the cash flow coverage ratio, which is calculated as a borrower's cash flow divided by its loan principal and interest payable. The following table sets forth the cash flow coverage status of our loans to local government financing vehicles as of December 31, 2016:

<b>Cash flow coverage status</b>	<b>As a percentage of total loans to local government financing vehicles as of December 31, 2016<sup>(5)</sup></b>
Fully covered <sup>(1)</sup> .....	70.35%
Basically covered <sup>(2)</sup> .....	18.46%
Half covered <sup>(3)</sup> .....	—
Not covered <sup>(4)</sup> .....	11.19%
<b>Total</b> .....	<b><u>100.00%</u></b>

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## RISK MANAGEMENT

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*Notes:*

- (1) “Fully covered” means that a borrower has sufficient cash flow to repay 100% or more of its loan principal and interest payable.
- (2) “Basically covered” means that a borrower has sufficient cash flow to repay 70% to 100% of its loan principal and interest payable.
- (3) “Half covered” means that a borrower has sufficient cash flow to repay 30% to 70% of its loan principal and interest payable.
- (4) “Not covered” means that a borrower has sufficient cash flow to repay less than 30% of its loan principal and interest payable.
- (5) The percentages are shown as rounded figures.

As of December 31, 2016, the cash flow of the majority of our local government financing vehicle borrowers was sufficient to cover 100% of the principal and the interests incurred.

As of December 31, 2016, none of our total loans granted to the local government financing vehicles were extended to entities at the provincial level, 47.6% were at the prefectural level and 52.4% were at lower level administrative divisions. These loans are distributed to five industries, accounting for 34.7%, 34.5%, 14.0%, 11.2% and 5.6%, respectively, of our total loans to local government financing vehicles.

As of December 31, 2014, 2015, and 2016, the balance of loans we granted to the local government financing vehicles was RMB499.0 million, RMB528.5 million and RMB357.6 million, accounting for 0.7%, 0.5% and 0.3% of the balance of our corporate loans and 0.2%, 0.2%, 0.1% of our total assets, respectively. As of December 31, 2016, none of our loans to the local government financing vehicles was classified as non-performing.

### *Credit Risk Management for Loans to Real Estate Industries*

We adopt a “customer list” management method for our credit risk management in the real estate industry and only extend credit to real estate developers on our customer list. To select customers for the real estate customer list, we carefully review their profiles, development experience and financial strengths. We prioritize our support to famous nationwide or leading regional real estate developers and prudently support new or small-scaled real estate developers. We also consider the geographic locations and types of the projects and provide suitable financial products to different customers. For instance, we prioritize our support to the real estate industry in Zhengzhou, which is relatively stable, and strictly control new credit extensions in other cities. We generally do not provide any new credit to the real estate industry in county areas.

In terms of project types, we prioritize our support to regular residential property development projects, especially low-income housing projects in Zhengzhou, and prudently support commercial property development projects. For commercial properties such as shopping malls, hotels and office buildings, we focus on those located in core urban areas and set strict eligibility requirements such as the length of operation and occupancy rates. We prohibit any credit extension to projects (i) that do not have all the necessary governmental approvals, permits and certificates, (ii) whose certificates of ownership and registration of collateral are not handled in a timely manner, (iii) whose construction work is delayed or suspended, (iv) whose sales were stagnant incur a sudden sale surge and (v) obviously overpriced compared to similar properties nearby.

As of December 31, 2016, our loans for the real estate industry amounted to RMB9,586.3 million, representing 8.7% of our corporate loans. As of December 31, 2016, 2.93% of our loans to the real estate industry was classified as non-performing.

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### *Credit Risk Management for Loans to Industries with Overcapacity*

The State Council, the CBRC and the Henan Government have promulgated policies to restrict loans to industries with overcapacity and publish a list of overcapacity industries regularly. In accordance with these policies, we strive to reduce our risk exposure to these industries and prohibit all forms of new credit extensions to the entities or projects not in compliance with national industrial policies and market entry conditions.

We impose credit limits for loans to industries with overcapacity, such as the coking and flat glass industries, and we will continue to manage and control the loans to these industries. We will restrict new credit extension to businesses in these industries unless such businesses are industry leaders, are in compliance with national industry policies, have clear competitive advantages, meet current environmental protection standards and utilize industry leading technologies.

We closely monitor the status of the borrowers in industries with overcapacity. We demand repayment when loans are due, or demand early repayment in accordance with our loan agreements if there is a breach of covenants or undertakings by such borrowers. As of December 31, 2016, the balance of our loans to enterprises in industries with overcapacity was RMB1,968.2 million, the majority of which were classified as “normal”.

### *Credit Concentration Management*

After the Reorganization, we focused on developing business relationships with strategic customers, mostly large enterprises in Henan Province. In order to control the credit concentration risks arising from the expansion of our credit businesses, we have imposed credit limits on our corporate banking customers. Loans to corporate borrowers within the same group will be calculated in aggregate when determining whether loan amounts exceed such credit limits. We adjust these credit limits based on national and local laws and regulations, as well as our credit policies. We also make efforts controlling the size of loans to any single customer. In addition, we strive to reduce geographic concentration risks through opening branches and sub-branches in new locations in Henan Province. We also explore the possibility of expanding into surrounding provinces to the extent permissible by laws and regulations.

### **Credit Risk Management for Personal Loans**

Our credit risk management procedures for our personal loans include pre-loan investigations, credit review and approval, loan disbursement management and post-disbursement management.

#### *Pre-loan Investigations*

For personal loan applications, we require individual applicants to provide information about their personal financial condition, such as their address proof, occupations, sources of income, debt status and credit records, and to specify their intended use of proceeds. We generally designate two account managers to review the supporting documents and verify the information provided by the applicants. We also require these account managers to conduct interviews in person with the applicants. For personal loans secured by collateral and pledges, we usually designate a third-party appraiser to verify the value of the collateral and pledges. For guaranteed personal loans, we also investigate the guarantors' background and credit history.



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### *Credit Review and Approval*

Our credit review and approval procedures for personal loans differ slightly between general personal loans (personal loans other than micro loans, as defined below) and micro loans (personal business loans below RMB1.0 million that use the IPC investigation technology). We have established the Retail Credit Department at our head office and corresponding retail credit departments at branches, and dispatched independent risk management directors and risk managers to facilitate the application review process for personal loans.

#### *General personal loans*

For general personal loans, our review and approval procedures may vary for different applicants based on their credit history, average income, collateral types and the credit amount they apply for.

#### Credit Approval at the Branch or Sub-branch Level

For a general personal loan that is originated from our branch or sub-branch level, the head of the originating business department or the risk managers at the branch level can (i) deny the application; (ii) if within their authorized limits, approve the application or (iii) if beyond their authorized limits, submit the application to the credit approval committee for personal loans at the branch.

The loan that exceeds the authorized limit of the branch credit approval committee for personal loans is submitted to the authorized credit approvers or the credit approval committee at the same level, who can approve the loan application within their respective authorized limits, subject to the veto rights of the branch president.

#### Credit Approval at the Head Office Level

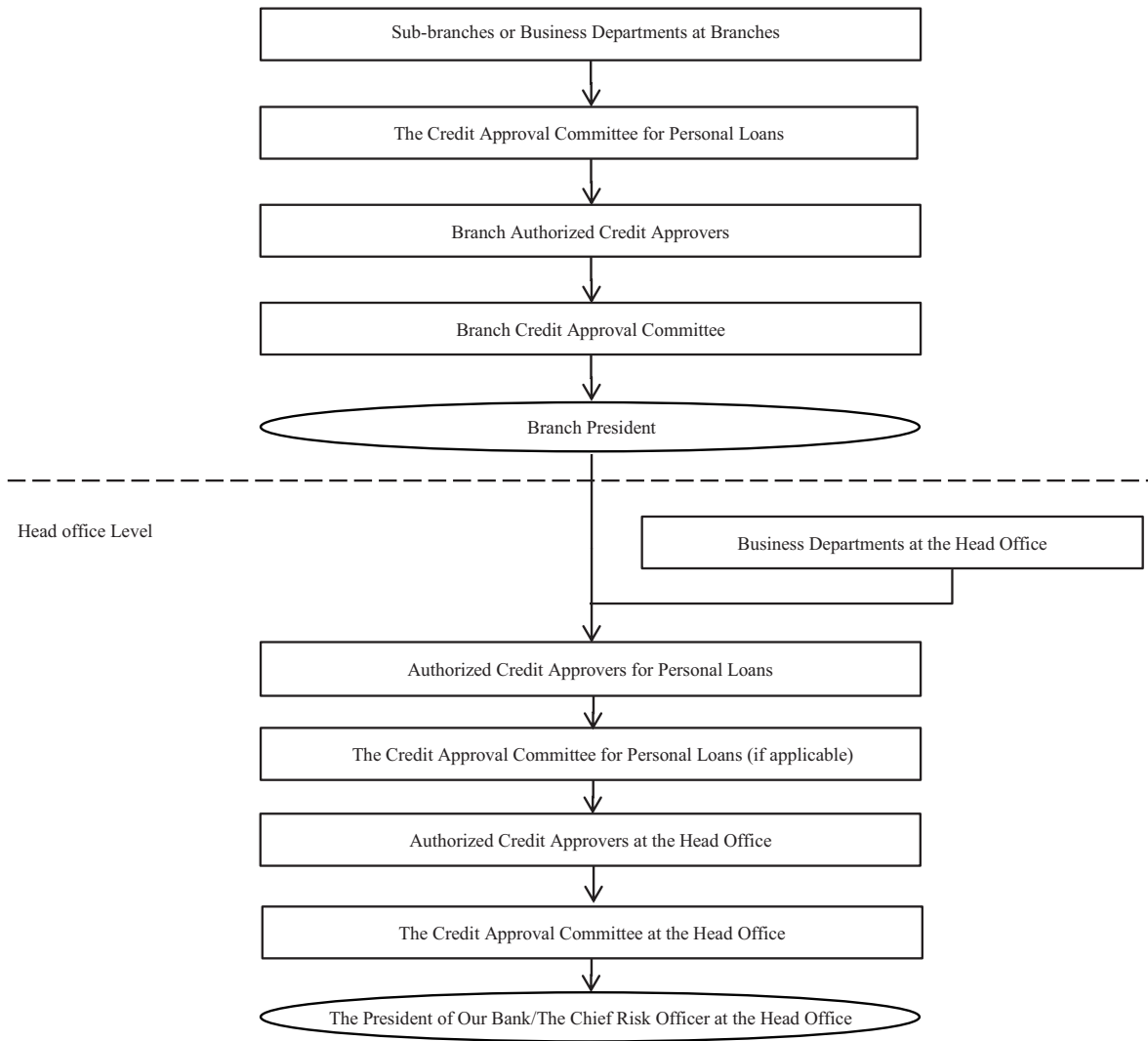
The loan application that exceeds the authorized limit of the branch credit approval committee is submitted to the authorized credit approvers for personal loans or the credit approval committee of for personal loans at the head office, who can approve the loan application within their respective authorized limits. The loan application that exceeds the authorized limit of the credit approval committee for personal loans at the head office is submitted to the Credit Approval Department at our head office. The risk managers at our head office conduct a preliminary review and the authorized credit approvers conduct a secondary review and can (i) deny the application, (ii) if within their authorized limits, approve the application or (iii) if beyond their authorized limits, submit the application to the Credit Approval Committee at our head office. Depending on the loan amount, the President of our Bank or the Chief Risk Officer at our head office has the power to veto the application.

For general personal loans that are originated from the business departments at our head office, our credit review and approval process starts from authorized credit approvers for personal loans at the head office with the identical procedures as described in the above paragraphs.

# RISK MANAGEMENT

The diagram below sets forth the review and approval procedure for our general personal loans as of the date of this prospectus:

Branch and Sub-branch Level



□ have approval right

○ have veto right

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## **RISK MANAGEMENT**

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### *Micro Loans*

We adopt an expedited credit review and approval procedure for micro loans. Our credit review and approval process starts from the sub-branches or the originating business departments at our branches. Our micro loan account managers prepare investigation reports and after obtaining the approval of business department heads, submit the loan applications to the micro loan review group. The micro loan risk management directors have veto rights on the micro loan applications approved by the micro loan review group. The loan that exceeds the authorized limit of the micro loan risk management directors is submitted to the branch authorized approvers for micro loan for review and approval.

### ***Loan Disbursement***

#### *General personal loans*

The disbursement procedure for general personal loans is similar to that for our corporate loans. We disburse the funds to personal customers only upon the satisfaction of all the conditions precedent specified in the credit approval. In certain situations where the borrower applies for fund disbursement before the collateral registration is complete, we must purchase collateral insurance to fully cover the risk of collateral loss or damage.

#### *Micro loans*

We have set up micro loan disbursement regional centers in certain locations where we conduct micro loan business. We assign risk management personnel to these regional centers to supervise the loan disbursement process. We require two persons to review the documentations and verify the satisfaction of all the conditions precedent before disbursing the funds.

### ***Post-disbursement Management***

#### *General personal loans*

We conduct initial follow-up inspections within 15 days after the disbursement of the loans, and also conduct routine inspections and special inspections. We require the originating business departments to conduct initial inspections after the loan disbursement to check the use of proceeds and our credit management departments to conduct selective examinations for the documentations relating to the use of proceeds.

Our inspection requirements vary based on the types and the classification of the loans. For personal consumption loans, our inspections comprise telephone interviews and on-site inspections, which are required for customers who have lost contact from us and for the loans that are classified as special mention or below. We conduct quarterly inspections on at least 10% of the personal consumption loans with a balance of RMB1.0 million or more, the samples of which are selected in a way that covers different types of customers. For personal business loans, we generally require on-site inspections. For instance, we require quarterly on-site inspections for any single borrower with a personal business loan of RMB5.0 million or above. We also select a sample of at least 20% of the personal business loans that are representative of different types of customers and conduct quarterly inspections. We also conduct monthly inspections on personal business loans that are classified as special mention or below. For residential and commercial mortgage loans, in addition to monitoring the change of the borrowers' repayment abilities, we focus on inspecting the operations and financial condition of the relevant real estate developers, as well as the status of their projects. For automobile loans, in addition to monitoring the change of the borrowers' repayment abilities, we focus on

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inspecting the operational status of the automobile brokers and commercial vehicle operators. We also inspect the loan guarantors and our business partners that provide ancillary services for our personal loan business. In addition, we may conduct special inspections on any particular industries, areas, products or customers from time to time.

Our risk monitoring and alert, loan classification, maturity and collection management and non-performing assets management for general personal loans are similar to that for our corporate loans.

### *Micro loans*

The Retail Loan Department at our head office is responsible for formulating bank-wide policies regarding micro loan management and for leading the risk management work. We require our account managers to proactively monitor the status of the borrower by conducting initial monitoring within 15 days after loan disbursement, by monthly telephone interview or site visits, and by semi-annual on-site collection of financial data. We also require our account managers to follow up with the repayment schedule and to identify risk alert signals. The account managers are primarily responsible for the post-disbursement management of all the loans originated from them.

Our risk monitoring and alert, loan classification, maturity and collection management and non-performing assets management for micro loans are similar to that for our corporate loans.

### **Credit Risk Management for Off-Balance Sheet Businesses**

We strictly review the business background of off-balance sheet transactions and verify the authenticity of the documentations. We also require strict compliance with our internal procedures so as to ensure that the deposit amounts, the margin ratios and the guarantee measures meet our requirements.

In respect of managing our bill discounting business, we have implemented internal policies to separate the operation of the front office from the middle and back offices. We assign persons from different departments to work together in a single transaction to split the authorities in relation to transaction approval and bills inventory management. We require our account managers to review supporting documents to verify the truthfulness of the underlying transactions before submitting bill discounting applications through our credit extension management system. For bills with face value of RMB10 million or above, we require our accounting personnel to conduct on-site inspections of the issuing banks, the acceptance banks and the corporate banking customers requesting bill discounting.

We review the applications, verify the authenticity of the bills, check the credit records of the banks and third-party bill agents (if applicable) involved in the transactions, and approve the bill discounting applications if all the conditions set out in our internal procedures are met. We disburse the funds upon the approval from Accounting Operation Department. Our Accounting Operation Department classifies the discounted bills based on their repayment status and prior to their maturity, dispatches the bills to the acceptance banks and requests payment.

From time to time, our Accounting Operation Department compare data collected from business departments and the auditing system and check their consistency with our physical bill inventory record. We make routine and random inspections on physical bills to ensure our bills inventory management is in strict compliance with our relevant risk management measures. We require all of our branches and business departments to conduct periodic self-inspections, to maintain all transactional records, and to report to the head office upon any loss, damage or non-compliant use of the documentations.

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### **Related Party Credit Risk Management**

In order to control the risks arising from Related Party Transactions and ensure the compliance of relevant laws and regulations, we have specified in our Articles of Association and internal policies the standards of identifying Related Parties, the review and approval procedures for Related Party Transactions and the reporting and registration requirements for such transactions. We vigorously implement these internal procedures throughout our Bank to identify all business relationships between the Related Parties and us and to maintain centralized monitoring and management of the Related Party Transactions. According to our internal policies, none of our Related Party credit extensions shall involve any conflict of interest. The pricing of the Related Party Transactions shall be objective and fair without prejudice to the interests of our Bank and our independent shareholders. If we extend loans to our Related Parties, the interest rates shall be consistent with the market rates and the terms of the loans shall not be more favorable than those for other independent borrowers of the same type during the same period. We continue to optimize our Related Party credit investigation and review and approval processes in order to further reduce the credit risks in relation to our Shareholders and Related Parties.

### **Credit Risk Management for Credit Card Business**

Our Credit Card Center assists the Risk Management Department and the Credit Approval Department in formulating our credit card extension policies and makes timely adjustment according to the macroeconomic condition and our business development strategies. Based on the profiles of our credit card customers, we have set differentiated eligibility criteria, credit policies, approval procedures and credit limits. We conduct credit evaluation for our credit card applicants. The factors we consider during the credit evaluation include the basic information, the financial condition, the employment status, the income and the repayment ability, among others, of the applicants. Our Credit Card Center has designated staff for management of credit card debt collection. We collect overdue credit card balances through mobile phone messages, phone calls, in-person visits or legal proceedings, depending on the risk profile of the cardholders.

### **Credit Risk Management for Village and Township Banking Business**

We supervise the risk management of our nine village and township banks under our control through our Village and Township Bank Management Department at our head office. Based on the development of the rural financial market and the regulatory environment, we issue tailored credit policy guidance and risk management guidance to these village and township banks to enhance their risk awareness. We also encourage them to prioritize businesses relating to agriculture and farmers in their local areas. We require our village and township banks to establish a comprehensive risk management system that contains an independent tiered credit approval system with credit approval committees, and to have designated persons for loan disbursement and post-disbursement management. From time to time, the risk management-related departments of our head office provide risk management advice to our village and township banks and organize professional trainings for their employees.

### **Credit Risk Management for Our Financial Markets Business**

Our financial markets business is exposed to credit risk arising from our money market transactions, investments in Standard Investment Products and Non-standard Credit Assets, interbank discounts and rediscounts of bills, and wealth management.

### ***Credit Risk Management for Money Market Transactions***

We impose an aggregate credit exposure limit to each domestic bank and non-bank financial institutions that we interact with. Our Interbank Bills Department and Credit Review Department review and approve each credit line to our interbank customers and closely monitor their maturity

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dates. We conduct regular evaluation on our interbank customers' capital strength, business operations, financial condition, compliance with regulatory indicators, proposed cooperation with other parties, risk events and other external factors that could affect their ability to honor their contractual obligations. The regular evaluation on our customers enables us to identify potential risk alert signals and adjust their credit limits in a timely manner. Meanwhile, we also maintain strict eligibility criteria for our counterparties. We only cooperate with counterparties with solid qualification, good reputation and sound performance track record.

### ***Credit Risk Management for Investments in Standard Investment Products and Non-standard Credit Assets***

Credit risks may arise from our investments in debt securities and Non-standard Credit Assets. We have implemented a variety of specific risk management measures to control the risks relating to our investments.

#### *Investments in Standard Investment Products*

We apply the principle of prudence in managing the credit risks arising from our investments in debt securities. To limit our credit risk exposure, we focus on PRC government bonds and other low-risk debt securities issued by PRC policy banks or large financial institutions. For debt securities issued by enterprises, we apply a stringent credit review and approval procedure similar to that for high-risk loans. Our Financial Markets Department at our head office reviews and approves the debt securities investment within the scope of authorization by the Risk and Internal Control Committee. The investment out of such scope of authorization must be reviewed and approved by the Credit Approval Committee at our head office. We require the credit ratings for both the issuers and the debt securities to be AA or above. For issuers in the steel and coal industries, we require the issuer to have a credit rating of AA+ or above if it is a state-owned enterprise, or to have a credit rating of AAA or above if it is a private enterprise. Our investment in debt securities issued by any singer customer is subject to the group credit limit we set for this customer. We also conduct regular reevaluation on the credit risks of the invested bonds to monitor their impact on our capital adequacy, liquidity and the maturity structure of our assets and liability.

#### *Investments in Non-standard Credit Assets*

We have established a comprehensive risk management system for our investments in Non-standard Credit Assets, which include trust plans, asset management plans, wealth management products issued by other PRC banks. We have adopted the following measures to manage the credit risks relating to our investment business.

- ***Counterparty Management.*** We maintain a transaction counterparty list for our investments in Non-standard Credit Assets. We evaluate the scale of assets, qualifications and credit records of the banks, securities companies, asset management companies, insurance companies, trust companies and other financial institutions and determine their eligibility for our transaction counterparty list. Based on their profiles, we assign a credit rating for each of these counterparties and classify them into different categories. We also impose an aggregate credit limit for each group customer and such limit applies to all the member companies within the same group.
- ***Due Diligence.*** We require our business departments to review the due diligence investigations conducted by the counterparties on the financing parties and the underlying projects or assets prior to the investment. Our legal preservation departments and compliance departments will review the relevant contracts and other legal documents to make sure that our interest under the proposed investments is protected.

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- *Review and Approval.* We incorporate investments in Non-standard Credit Assets into our uniform credit approval procedure and centralize the risk management for such investments. Depending on the types and amount of the proposed investment, we require our Investment Banking Department, Interbank Bills Department, Financial Planning Department or Credit Management Department to conduct review prior to any investments. If the source of funds is from the wealth management products issued by us, we also require an approval from Asset Management Department before making investments in Non-standard Credit Assets.
- *Inspections and Monitoring.* We require the originating business departments to conduct initial inspections within seven days after the fund disbursement and check whether the flow of funds is consistent with the specified use of proceeds. We also require our originating business departments to conduct regular inspections at least once per quarter on the financing entities. For entities that are on our monitoring list, which usually include those who have defaulted or whose affiliates have defaulted, we conduct regular inspections at least once per month. Our originating business departments inspect the financing entities' operational status, financial condition, project progress and collateral ownership and submit quarterly monitoring reports to our Credit Management Department and Investment Banking Department. Our Credit Management Department may conduct special inspections on any particular industry, region, product or financing entity if it deems necessary. We actively monitor the financial indicators of these financing entities and issue risk warnings if any material adverse event is discovered.
- *Classification.* We classify our financial assets based on the same standards applicable to our corporate loans. For details, please see "Risk Management — Credit Risk Management for Corporate Loans — Post-disbursement Management — Loan Classification".
- *Record Keeping.* We require our business departments to keep accounting records for investments in Non-standard Credit Assets in accordance with our internal policy.

In addition, we also have implemented certain specific risk management measures for the investments in different types of financial assets.

- *Trust Plans.* Before investing in trust plans, we conduct due diligence on the trust companies, the financing parties and the underlying projects, and carefully study the laws, regulations and government policies that may affect the value of the trust products. We analyze fluctuations in market interest rate and the expected return of the financing projects, and select the trust fund plans with manageable risks and growth prospects. After the investment, we proactively monitor the operation and financial condition of the financing parties and carry out regular inspections on the underlying projects. The trust companies also have the contractual obligations to effectively manage their trust plans. If the trust companies identify any risks that would adversely affect our investments in their trust fund plans, they are required to notify us immediately and take actions to reduce the relevant risks.

According to relevant agreements, the financing parties or third parties are required to provide full guarantees for the principal and expected yields under the trust plans by collateral, pledges or guarantees. According to our contracts with the trust companies, in the event that the trust companies are unable to fully recover the principal and the expected yields from the financing parties, we may demand the trust companies to enforce their rights under mortgages, pledges or guarantees. We require the funds under the trust plans to be placed at and supervised by third party custodian banks to ensure segregation from the financial institutions' own assets. We also require the transfer of funds to be made and monitored by the custodian banks.

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- *Asset Management Plans.* Before entering into transactions with the asset management companies, the securities companies or other financial institutions issuing asset management plans, we perform a comprehensive risk assessment on their total assets, net assets and capability to perform the contracts. We cooperate with financial institutions that have an established system of risk control, internal audit, accounting management and human resources so that the underlying assets are under capable management. We require the funds under the assets management plans to be placed at and supervised by third party custodian banks to ensure segregation from the financial institutions' own assets. We also require the transfer of funds to be made and monitored by the custodian banks. Based on our risk appetite, we set investment objectives for each of our asset management plans. According to our agreements with the asset management companies, the securities companies or other financial institutions, they may not make any investments without receiving instructions from us or third-party custodian banks.
- *Wealth Management Products Issued by Other PRC Commercial Banks.* Prior to making investment in wealth management products issued by other PRC commercial banks, we assess the risks associated with such wealth management products by reviewing various factors, including the credit history of the issuing financial institutions and the portfolio investments underlying the wealth management products. We generally invest in wealth management products issued by commercial banks with relatively sound asset management capabilities and require the issuing banks to clearly set out the use of proceeds in our investment agreements. Our investments in wealth management products issued by other financial institutions are subject to the centralized credit approval and post-investment management.

For our investment in non-principal protected wealth management products, we require the issuing banks to provide us with information concerning the scope of their investments utilizing our funds or a list of assets invested by the issuers for our review. We explicitly prohibit issuing financial institutions from using proceeds of such wealth management products in any manner against relevant laws and our internal policies. For instance, we do not allow our funds for non-principal protected wealth management products to be used for investing in stocks or debt products that fail to meet our requisite rating. We may take legal actions to protect our interest if these counterparties fail to perform such contractual obligations.

### *Investments in Investment Funds*

We invest in investment funds, which in turn invest in credit assets, debt securities, wealth management products and financial assets issued by non-financial institutions. All the investment funds we invest in are regulated by the CSRC and other regulatory agencies. We only invest in funds with required qualifications, abundant experience, solid track record and good industry reputation. We have adopted the following measures to manage the risks relating to investments in investment funds.

- Our integrated risk management system covers our investments in investment funds. The approval and risk management for our fund investments are centrally managed by our head office.
- We require our business departments to get sufficient understanding of the fund management companies' operational condition, historical record, investment scope and investment strategy. Our risk control team reviews and evaluates the investment plans, and submit to the authorized approvers for review and approval pursuant to our credit authorization management policies.



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- We have established a periodic communication mechanism and adjust our fund allocation based on our operations.
- We generally require the principal amount and interest of the investment to be fully secured by the financing parties' land, buildings or shares with valid and effective titles, or jointly and irrevocably guaranteed by third-party guarantors. The value of the collateral is evaluated and determined by the evaluators designated by our Bank.

### *Credit Risk Management for Wealth Management*

We issue wealth management products to our corporate banking, retail banking and interbank customers and invest the proceeds from such wealth management products in Standard Investment Products and Non-standard Credit Assets. Credit risks may arise from our wealth management business. We strengthen our credit risk management by conducting various market analyses, identifying suitable investment targets, setting credit limits for our counterparties, performing pre-investment due diligence investigations and strictly controlling the proceeds received from the issuance of our wealth management products. We also enhance our post-investment risk management by closely monitoring the mismatch between the maturities of the financial products we sold and that of the underlying credit assets. Our wealth management business is subject to our bank-wide liquidity risk management system, which has set liquidity limits. We also strive to reduce our liquidity risk by allocating more funds to high liquidity assets, prudently planning the issuance of our wealth management products and timely adjusting our products and investment portfolio.

To ensure compliance with the CBRC requirements relating to segregation of accounts, risk isolation, regulated conduct and unified management as set forth in the Notice on the Relevant Issues Concerning Improving the Management Organizational Structure of the Banks' Wealth Management Business (《關於完善銀行理財業務組織管理體系有關事項的通知》) (CBRC Order [2014] No. 35), we have established the Assets Management Department as a specialized management department for wealth management products established a separate bookkeeping and accounting system for wealth management products. In order to maintain centralized management, we have also established an assets management system for daily management of our wealth management products. We have implemented relevant internal policies to ensure accurate accounting recording and adequate disclosures to investors regarding the underlying assets of the wealth management products issued by our Bank.

According to the Measures for the Administration of the Sale of Wealth Management Products of Commercial Banks (《商業銀行理財產品銷售管理辦法》) (CBRC Order [2011] No. 5) issued by the CBRC in 2011, we classify the wealth management products we issued into five categories based on their risk levels: Level 1 refers to low risk; level 2 refers to low-medium risk; level 3 refers to medium risk; level 4 refers to medium-high risk; and level 5 refers to high risk. We correlate the risk levels of our wealth management products to the risk tolerance level of customers. Our customers can buy wealth management products through our counters, customer relationship managers, self-service banking facilities or internet finance. We have formulated internal policies and procedures on the sales and marketing of our wealth management products to ensure the risk levels of wealth management products purchased by customers matched their own individual risk tolerance. We conduct a customer suitability assessment before a customer purchases or commits themselves to any wealth management products from us. Our customers can only purchase the wealth management products within their risk tolerance level and we generally reassess each customer's risk tolerance on an annual basis.

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### **Information Technology System for Credit Risk Management**

We are committed to improving our credit risk management with advanced information technology systems. We are cooperating with third parties to develop an updated risk alert system which is expected to be put into operation in October 2017. This system will conduct better real-time monitoring on bank-wide credit risks and automatically issues risk alerts. We continue to feed large volume of customer information and financial data into this system to expand its database. We are constantly optimizing and upgrading the credit rating module, credit approval module, loan disbursement module, post-disbursement management module and collateral and pledge management module of this system so that various facets of our credit risk management will be integrated. Our information technology system for credit risk management will ultimately cover all the steps throughout the credit extension process and post-disbursement management.

### **MARKET RISK MANAGEMENT**

Market risk is the risk of losses to our on- and off-balance sheet businesses arising from movements in the market prices. We are exposed to market risks primarily through the assets and liabilities on our balance sheet and the commitments and guarantees off our balance sheet. The major types of market risks we are exposed to include interest rate risk and exchange rate risk. The goal of our market risk management is to control the market risk to a tolerable level and to maximize the risk-adjusted returns based on our risk appetite.

We have established a three-tier market risk management system covering our Board of Directors, senior management, and business departments including our Risk Management Department, Financial Planning Department, Financial Markets Department and Interbank Bills Department. Our Board of Directors is ultimately responsible for our market risk management. Our senior management is responsible for formulating, reviewing and supervising the implementation of market risk management strategies, policies and procedures, and monitoring our market risk level and management status. Our Asset Management Department, Trade Finance Department, Financial Markets Department and Interbank Bills Department are the business departments responsible for implementing our market risk management measures through their daily business operations, while our Risk Management Department is responsible for identifying, measuring, supervising, and controlling our market risk.

Our market risk management practices consist of the identification, measuring, monitoring and control of market risk. We primarily employ gap analysis, duration analysis, stress test and scenario analysis in measuring and monitoring market risk. We also set authorized limits for our portfolios and products based on our market risk appetite, market risk tolerance level, business strategies as well as characteristics of specific products. We adopt different quantitative measures to manage various types of market risks in both our banking and trading books.

### **Interest Rate Risk**

Interest rate risk arises primarily from fluctuations in the prevailing interest rates, as well as the mismatch in the re-pricing dates or maturity dates of our interest rate-sensitive on- and off-balance sheet assets and liabilities, which may result in reduction in our net interest income and the value of our assets. The PRC government has gradually liberalized interest rates in China in recent years. Since July 20, 2013, commercial banks have been allowed to set interest rates for RMB-denominated loans (except for commercial residential housing loans) at their own discretion. Since October 24, 2015, commercial banks have been allowed to set interest rates for RMB-denominated deposits at their own discretion. As a result of the liberalization of interest rates, the fluctuation of the interest rates has gradually changed from policy-oriented to market-oriented, and therefore subject to more uncertainties.

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### *Impact on Deposits and Loans*

The interest rate variations on our deposits and loans mainly impact our interest rate spread and the value of our loans. As interest rate spread is our main source of operating profits, the adjustment of the benchmark deposit and loan rates by the PBoC and the resulting change of market interest rates will affect our revenue structure and profitability. In particular, in respect of our fixed interest rate businesses, changes in interest rates may cause our customers to alter their behaviors. When the interest rate increases, our deposit customers may early withdraw their deposits and re-deposit them to get a higher savings rate, which will increase our interest expenses. When the interest rate decreases, our loan customers may early repay their loans and re-apply for new loans with a lower interest rate, which will lower our interest income.

When there is evidence of impairment of any of our loans, the amount of impairment loss for this particular loan is measured as the difference between the loan's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss account. As such, unexpected changes in interest rate may affect our floating-rate loans and our profit or loss.

### *Impact on Bonds and Non-standard Credit Assets*

The fluctuation of market prices of bonds and financial assets is correlated to changes in benchmark interest rates and market expectations of future interest rates. The market trend in the last few years indicated that valuation of bonds and Non-standard Credit Assets tend to fall when investors expect the benchmark interest rates or market interest rates to increase. As a result, an increase in interest rate may result in a decrease in the valuation of our existing assets and our profitability. On the other hand, an increase in interest rate may also lead to tighter liquidity, which may in turn drive up the cost of investing in bonds and Non-standard Credit Assets. Given the uncertainties about changes in future market interest rates, there is a risk that the value of our investments may decrease due to our misjudgment in making investment decisions according to our expectations on the future market interest rates.

### *Interest Rate Risk Management*

We have implemented uniform interest rate management policies that allow us to stringently control the authority of interest rate management. We have adopted the following measures to manage our interest rate risk.

#### *Enhance Research and Analysis Capabilities*

We constantly follow the latest development of government economic policies, especially those have substantial impacts on market interest rates, and conduct in-depth research on the financial market conditions. We continuously enhance our research and analysis capabilities on macroeconomic conditions, so that we can improve our predictions on the interest rate volatility. We also utilize advanced software to analyze the data about our loans, deposits and deposits, such as their term, size and maturity. We believe our strengthened research and analysis capabilities will help us better control our interest rate risk and minimize the losses arising from the changes of interest rate.

#### *Actively Monitor Interest Rate Risk Indicators*

We use information technology system to conduct actively monitoring of the key interest rate risk indicators, which provides us a solid foundation for assessing our interest rate risk exposure. We also use techniques such as duration analyses, scenario analyses, sensitivity analyses and stress tests

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to measure our interest rate risks. For instance, we conduct regular stress tests on bonds and other major financial markets businesses in different stress scenarios, such as changes in the shape of the yield curve, to measure the potential impact on our profitability. We also conduct ad hoc stress tests in the event of extreme market conditions. Based on these analyses, we may set exposure limit for certain loans and investment or adjust their re-pricing term to control our interest rate risk. In addition, we have a reporting and response mechanism to monitor the real time interest rate sensitivity gap and to timely respond to interest rate risks.

### *Optimize Our Assets and Liabilities Structure*

We closely follow the market and proactively optimize our assets and liabilities structure to reduce interest rate risk. Based on the changing trends of market interest rates, we dynamically adjust the size and structure of assets in response to changes in the market environment so that the maturities of our assets and liabilities can match. For instance, during the cycle of an upward trend for the interest rate, we moderately reduce the overall duration of our portfolio of bonds and Non-standard Credit Assets by increasing the proportion of short-term products. We also reset the interest rates for certain products, adjust funds transfer pricing and promote asset securitization. In addition, we strive to improve the overall quality of our investment portfolio. We have established various risk management policies for our financial markets businesses. For details, please see “Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Markets Business”.

### **Exchange Rate Risk**

Exchange rate risk arises primarily from exchange rate fluctuations, as well as 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, which may result in a loss of profits and a reduction of value of assets. Exchange rate risks faced by banks mainly include trading risk and conversion risk. Trading risk represents the possibility that banks may suffer losses as a result of a change in exchange rate while using foreign currencies to conduct pricing receipt and payment transactions. Conversion risk represents the possibility that banks may suffer paper losses as a result of a change in exchange rate while converting foreign currencies into the bookkeeping base currency.

### *Exchange Rate Risk Management*

We seek to maintain the adverse effects of exchange rate changes within a tolerable range by adopting various measures. We have put together various policies and operational procedures regarding our foreign exchange businesses, such as foreign exchange settlement, sales and payment and foreign exchange trading, so as to ensure that our risk mitigation measures are effectively implemented. Pursuant to our standard operational procedures, we check the position of the respective main foreign currency in the international market on a daily basis and actively monitor key indicators, such as exposure limit. Based on the monitoring, we set overnight and daily limits for currency exposure.

### **LIQUIDITY RISK MANAGEMENT**

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting our liquidity include changes in the maturity profiles of our assets and liabilities and the monetary policies of the PBoC, such as changes in the statutory deposit reserve ratio. We are exposed to liquidity risks primarily in our lending, trading and investment activities and in managing our liquidity position. The primary objective of our liquidity risk management is to maintain sufficient funding at all times to fulfill our payment obligations and working capital requirements.

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We manage liquidity risk primarily through monitoring the maturity of our assets and liabilities to ensure we have sufficient funds in a timely manner or at a reasonable cost to fulfill our payment obligations when due. We have improved our liquidity risk management following the CBRC's announcement of the Notice on Further Strengthening the Supervision of Liquidity Risks of Commercial Bank (《關於進一步加強商業銀行流動性風險監管的通知》) and the Administrative Measures for the Liquidity Risk Management of Commercial Banks (Provisional) (《商業銀行流動性風險管理辦法(試行)》), which became effective on October 1, 2015. We implement more stringent regulatory requirements, closely monitor all liquidity ratios, formulate crisis management plans, strengthen liquidity risk management and improve the application of stress test. The major measures we have taken to manage liquidity risk include:

- establishing a liquidity risk management system and organizational structure that fit our operational scale; utilizing the discussion mechanism of our Assets and Liabilities Committee, strengthening the research and prediction of macroeconomic condition; establishing a tiered liquidity reserve system in preparation for potential liquidity crisis; conducting liquidity risk assessment before launching new products or business lines; strengthening efforts to recover non-performing loans and strictly controlling the addition of new non-performing loans.
- centralizing cash flow and position limit management; establishing a reporting system for large fund flows and a reasonable allocation of funds to increase returns on assets;
- optimizing asset and liabilities portfolio to control long term structural liquidity risk; adjusting the maturity mix of our assets and liabilities by change of business plans, funds transfer pricing and mandatory adjustment;
- improving the liquidity limit management system and strictly implement the limit management; monitoring liquidity risk through multiple key indicators, including surplus deposit reserve ratio, liquidity coverage ratio, deposits from top ten customers to total deposits, net stable funding ratio, loan to deposit ratio and liquidity ratio;
- strengthen the liquidity stress test and contingency management; conducting periodic cash flow analysis and liquidity stress tests to identify potential liquidity risk and develop risk mitigation measures; formulating a liquidity risk contingency plan to ensure sufficient liquidity under various market conditions; and
- improving the liquidity reporting system

### OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information systems, or external events. The primary operational risks we are exposed to include internal and external frauds, worksite security failure, property damage, business interruptions, information system breakdown, and defects in the execution and settlement of transactions and business process management.

#### Principles of Our Management of Operational Risks

We strictly follow the Guidelines on the Operational Risk Management of Commercial Banks promulgated by the CBRC and have formed our operational risk management policies. In managing our operational risks, we follow four principles: (i) effectiveness, which requires our operational risk management policies to be fully implemented and each of our employees to be bound by our internal control measures; (ii) completeness, which requires our operational risk management to cover each

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employee in every department and each procedure in every business operation; (iii) prudence, which requires us to prioritize internal control and risk prevention in conducting new business activities; and (iv) cost efficiency, which requires us to identify and focus on significant risks to control the cost of operational risk management.

### **Three Lines of Defense**

While the Board of Directors is ultimately responsible for our operational risk management, the senior management leads our day-to-day bank-wide operational risk management. We have established “three lines of defense” against operational risk. The first line of defense is formed by our head office, branches and sub-branches and our various business departments. The second line of defense includes our Risk Management Department, Compliance Department and other risk management-related departments. Our Compliance Department is responsible for leading the formulation of the policies and procedures for operational risk management, and reviewing and evaluating the effectiveness of operational risk management implemented by our branches and sub-branches at all levels. Our Compliance Department is also responsible for leading the establishment of our operational risk management system and ensuring the uniform application and effectiveness of our operational risk management. The third line of defense is constituted by our Audit Department, Regional Audit Department I and Regional Audit Department II, which are responsible for conducting independent valuation of our operational risk management system and its implementation and monitoring the effectiveness of our operational risk management policies.

### **Standardized Management of Policies and Operational Procedures**

We continue to optimize our policies and operational procedures, and conduct inspections and monitoring on control points. We have an operational risk management mechanism covering every aspect of the business processes in our head office, branches and sub-branches. For instance have put together a standard credit management operational manual that setting forth detailed operational procedure flowchart for each position. These procedures cover, among others, disbursement review and approval, post-disbursement management, risk classification and alerts, system maintenance, statistical analysis and documentation management. We provide a continuous training scheme to strengthen our employees’ skills and require all of our employees to strictly follow these operational procedures in their daily work, whether they are responsible for business development or risk management. The compliance with these procedures is an important factor in evaluating our employees’ performance.

### **Bottom-Up Operational Risk Reporting System**

We have established a bottom-up operational risk reporting system. Our business departments at the head office level and branches periodically or *ad hoc* report their operational risk management status and incidents to the Compliance Department, which submits periodic and *ad hoc* reports relating to operational risks to our Board of Directors, Board of Supervisors and senior management. The reports are required to include our operational risk profile, operational risk incidents and relevant data analysis, trends and early warning analysis, remediation measures and steps for future improvements. Significant operational risk incidents should be orally reported within one hour, and reported in writing within one day, to the relevant business departments at the head office level and the Compliance Department, which should immediately report to senior management upon receiving the oral reports. We have formulated code of conduct for our employees and other internal policies to encourage whistle-blowing upon their discovery of potential misconduct.

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### **Measures to Further Improve Our Operational Risk Management**

We seek to further improve our operational risk management through the following measures:

- Strictly separating the responsibilities of the front, middle and back offices and optimizing operational procedures and risk control procedures;
- Adopting advanced risk management tools, such as the risk control self-assessment, to identify and evaluate the sufficiency and effectiveness of our operational risk management;
- Establishing and improving an operational risk evaluation mechanism for new businesses, new products and new systems, and optimizing the relevant policies, procedures and systems based on the evaluation results;
- Establishing key indicator database for operational risks for all business lines to strengthen the base for dynamic operational risk monitoring and risk mitigation measures;
- Strengthening the compliance awareness for our employees through continuous trainings, on-site inspections and off-site monitoring;
- Issuing risk alters for risk incidents and improving operational risk control measures. For instance, in relation to certain litigation and incidents in the past, we strengthened our operational risk management by adopting stricter authorization requirements for use of official chops. Our branches centralize the management of all the official chops of the sub-branches under their management and any use of official chops by these sub-branches must be approved by our branches. The official chops of our head office is placed in a specialized machine and can be used only upon passing all the required authorizations and documentary approvals.
- Establishing internal compliance and operational risk management system;
- Strengthening three lines of defense through the internal audit systems

### **INFORMATION TECHNOLOGY RISK MANAGEMENT**

The Risk Management Department and the Information Technology Department at our head office are responsible for managing our information technology risk. Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural or human factors, technical loopholes and management failure arising from our use of information technology. We make efforts to identify, assess and monitor information technology risks by establishing an effective mechanism to operate our business. We strive to continuously improve our information technology infrastructure and put our management in line with the ISO27001 standard and the Guidelines on Information Technology Risk Management of Commercial Banks issued by the CBRC. Our objective is to establish and improve our information technology risk management through innovation. We believe an enhanced information technology risk management system will strengthen our core competitiveness and sustainable development capability.

Similar to other banks and financial institutions, we rely on proper functioning of the information technology systems for our business operations. As a result, disruptions of our information technology may severely damage our internet banking or mobile banking operations. We have established an information technology risk control self-assessment mechanism, which requires each of our departments to identify, register and evaluate the risks relating to information technology and take proper mitigation measures. We also closely monitor information technology key risk indicators and issue information technology risk alerts at the early stage. In addition, we conduct regular trainings for our employees to enhance their awareness on information security and improve the implementation of our information technology risk management.

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### **Information Security Management**

We have established a complete information security organizational structure, which covers the security management for physical conditions, staff, system construction, system operation and maintenance, and terminals. To ensure the security of information technology, we have hired professionals to oversee our information security and established a series of information security management measures covering various areas in order to prevent any unauthorized online intrusion, attack, data leakage or third-party tampering on our information system. We also maintain security of our information system through various technologies such as encryption, anti-virus software, firewall and malicious code protection and we continuously update such technologies to enhance our information security management. In addition, we have established a standardized information security risk monitoring and assessment mechanism, which requires us to carry out periodic internal and external information security risk assessments and enables us to deal with any red flag issues promptly.

### **Business Continuity Management**

As part of our business continuity management measures, we have established a few disaster backup infrastructures in different cities. In Zhengzhou where our head office is located, we have a backup data room pursuant to the Grade-A national criteria for data centers. In Shanghai, we have constructed a disaster recovery center, which provides back-up plans for our important information system in the event of fire, construction breakdown and interruption of electricity and telecommunication. We have also established detailed contingency plans regarding the potential breakdown of our information system to ensure the continuity of our operations. We conduct annual business continuity simulations for our important businesses.

### **Information Technology Audit**

We carry out comprehensive internal audits over our information technology risk management at least once every three years to safeguard the effective implementation of our various risk management measures. Our Audit Department formulates implements and adjusts internal audit plans, inspects and evaluates the comprehensiveness and effectiveness of our information technology system and internal control regime, and completes the internal audit work pursuant to the audit plans. We may also engage external experts to carry out external audits upon our hardware, software, files, and data in order to identify existing risks associated with our information technology. The CBRC or its agencies may, when necessary, designate qualified external audit institutions to conduct audit upon our information technology. Their authorized audit reports shall take the same effect as those from the CBRC or its agencies upon review and approval by the CBRC. We are required to further propose and implement rectifying measures within the time prescribed based on these audit reports.

## **REPUTATIONAL RISK MANAGEMENT**

Reputational risk refers to the risk of negative comments from relevant interested parties resulting from our operations, management, and other activities or external events. We seek to establish an effective reputational risk management mechanism to monitor, identify, report, control, and assess our reputational risk, manage the whole process of our reputational risk emergency handling, and reduce to the extent possible the loss and negative impact upon our Bank due to certain incidents.

We have established a tiered organizational framework for reputational risk management. Our Board of Directors bears the ultimate responsibility for reputational risk management. We have established the General Office at our head office to deal with publicity and handle material or



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emergent reputational events. The General Office is responsible for leading, coordinating, and supervising our branches and sub-branches in their daily management, establishment of regulations, public relation management and handling of emergencies in relation to reputational risk.

We collect, organize, and analyze information in relation to our reputation every day. By enhancing our relationship with the media, we strive to promote positive publicity and receive positive feedback on our business operations. We conduct regular review of our reputational risk and issue risk alerts for potential reputational risk incidents. We engage public relation companies and work with them to prepare contingency plans to tackle reputational incidents. In the case of any reputational incident, we will organize an emergency leading team, activate the contingency plans and timely resolve any such incident pursuant to our internal workflow. At the same time, we will also work together with public relation companies on press communications and information publication in order to minimize the adverse impact caused by such incidents.

### LEGAL AND COMPLIANCE RISK MANAGEMENT

#### Legal Risk

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.

Our Legal Preservation Department at the office and the corresponding departments at the branch level are responsible for management of our legal risk. We carry out legal risk management mainly through the following measures:

- Implementing the legal review system. We require the contracts for all types of businesses bank-wide to be reviewed by our Legal Preservation Department and to be used only after obtaining its legal opinion. We conduct legal review of our businesses to prevent legal risks and ensure the legality of our operational activities.
- Formulating form agreements. Our head office and tier-one branches formulate form agreements for frequent operational activities and use them in bank-wide businesses to reduce legal risks.
- Strengthening litigation management. Our head office centralizes the bank-wide litigation management. We study and discuss the action plans upon litigation and enhance our case management capability to reduce legal risks.
- Periodic legal training. We conduct multiple bank-wide legal trainings periodically every year to enhance the legal knowledge and risk awareness of our personnel.
- Legal risk alert system. For common legal risks in our business operations, we publish legal risk alerts on our website to remind our employees to prevent and reduce the occurrence of legal risk incidents.

#### Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial loss and reputational loss as a result of failure to comply with laws, regulations and rules. The objectives of our compliance risk management are to effectively identify, evaluate and prevent compliance risks by establishing a sound mechanism of compliance risk management, thereby to build up a comprehensive risk management mechanism to ensure our compliance with laws and regulations.

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Our Board of Directors bears ultimate responsibility for compliance of our operational and management activities with applicable laws and regulations. Our senior management is responsible for formulating compliance policies, whereas the Compliance Department at our head office and the corresponding departments at the branch level assist our senior management in the daily management of our compliance risk. Each of the business lines and business departments is principally responsible for its respective compliance and compliance management. We carry out compliance risk management mainly through the following measures:

- Compliance resource allocation. We hire sufficient compliance management personnel with appropriate qualification, experience and expertise to provide adequate support to the compliance work in each business line and branch.
- Compliance management plans. The Compliance Department at our head office makes annual compliance management plans setting forth the relevant work and implements such plans after the approval of the senior management at the head office. The corresponding compliance departments at branch levels adjust and optimize these plans based on local regulatory requirements and other situations and implement these plans after the approval of the senior management at the branches.
- Identification and evaluation of the compliance risk. We conduct periodic analysis on business procedures and identify and confirm the compliance risk points. We conduct periodic and special evaluation on the risks identified, assessing the likelihood and significance of the damages caused by legal sanctions and regulatory penalties. We also conduct special evaluation in certain conditions, such as development of new products or businesses, occurrence of significant risk accidents, material changes of business procedures and changes of regulatory environment.
- Monitoring and control of compliance risk. We conduct compliance review on each business line and each branch and sub-branch. Our compliance departments provide bank-wide compliance consultation relating to relevant domestic and international laws, regulations and internal policies. We issue compliance risk notifications when certain conditions are met.
- Compliance risk reports. Each business department and branch reports compliance risk-related information to the person in charge of such business department or branch, and to the Compliance Department at our head office simultaneously. The Compliance Department at our head office consolidates this information and report the senior management.
- Compliance performance review, accountability and reporting. We have incorporated compliance into our performance review system to emphasize the importance of compliance. We have established a compliance accountability and reporting mechanism to encourage our employees to participate in compliance risk management.
- Compliance culture. We believe that compliance creates value for us and dedicate to cultivating a compliance culture among all of our employees. In light of the increasingly strict regulatory requirements imposed by the banking regulatory authorities recently, we strengthen our internal compliance checks and inspections for relevant businesses; evaluate and optimize the operational policies and procedures for relevant businesses; increase the proportion of compliance in the evaluation mechanism; adopt strict accountability internally; and conduct compliance training, etc. We strengthen our compliance management and cultivate a compliance culture.

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### **Anti-money Laundering**

In line with the PRC Anti-Money Laundering Law and other applicable rules and regulations promulgated by the PBoC, we have established a bank-wide organizational structure for anti-money laundering and developed internal control measures and standard operational procedures, which enable us to effectively identify, evaluate, monitor, control and report anti-money laundering risk. We have set up an anti-money laundering leading group, which is headed by our senior management, to lead the implementation of internal control policies and operational procedures in relation to anti-money laundering. The Compliance Department is responsible for leading the anti-money laundering management and coordinating with all the business departments, functional departments, branches and sub-branches in relation to the internal control policies and operational procedures about anti-money laundering.

We have developed internal policies and procedures with respect to anti-money laundering which are primarily relating to customer due diligence and identification sanction screening, transaction record keeping, suspected terrorism financing and drug transaction related money monitoring, and large and suspicious transaction reporting. We have also developed and have been continuously updating our anti-money data supervision and reporting system, which features modules covering fundamental management, policy management, data reporting, inspection analysis, statistics reporting, maintenance management, risk categorization and due diligence. We are dedicated to upgrading our anti-money laundering system. Pursuant to the latest PBoC regulatory requirements, we study self-monitoring module to improve its effectiveness. We provide frequent trainings to our employees to help them understand the latest development about PRC and international anti-money laundering laws.

We have formulated our Customer Money Laundering Risk Classification Policy to classify our customers into three levels based on their money laundering risk. For newly-acquired customers who open new accounts with us, we review the customer information and classify their risk levels. We continuously monitor the changes in customer situation and their transactional records and adjust their risk levels as appropriate. For high risk customers, we audit their basic information (including but not limited to their account opening information) semi-annually and update this information in our centralized system in a timely manner. We strengthen customer identification measures for these customers. We focus on analyzing their source of funds, use of funds, financial condition, operational status, controlling shareholders and controlling persons. We also conduct a closer monitoring on their transactional details through our core business system or anti-money laundering system. We will report suspicious transactions to the PBoC Anti-money laundering Monitoring Center.

### **INTERNAL AUDIT**

We believe internal audit is essential to the sustainable development of our business operations. The objectives of our internal audit are to enhance our internal control and risk management, to improve our business management, and to monitor our departments and employees in performing their duties. With a standardized procedure, our internal audit covers a comprehensive range of areas including our financial condition, business operations and corporate governance. Our Audit Department strictly follows the principles of independence, importance, prudence, objectivity and relevance throughout our internal audit work.

We have established an independent internal audit system, which comprises our Board of Directors, the Audit Committee, the Audit Department, the Regional Audit Department I and the Regional Audit Department II at our head office, and our branch audit departments. Our Audit Committee, under the guidance of the Board of Directors, is responsible for reviewing our compliance policies, accounting policies and financial reporting procedures. The Audit Department at our head

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office is responsible for the internal audit at the head office level while our Regional Audit Department I and Regional Audit Department II are responsible for leading the audit work at the branch level. The three audit departments periodically report our audit work to the Vice President of the Board of Directors, the Board of Supervisors and the Audit Committee.

Our Audit Department at our head office formulates annual internal audit plans according to the regulatory requirements and the internal requirements set forth by the Audit Committee, as well as the business operations of our branches and sub-branches, and implements these plans upon the approval by our Audit Committee. During routine audits, we review our operations, information systems, financial reporting and risk management through systematic and standardized internal audit methods, and evaluate the effectiveness of our internal control and corporate governance. We also conduct special audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. We carry out our internal audit work on-site or off-site and issue audit reports afterwards. To ensure that the audited units have taken proper rectifying actions in response to audit suggestions, our Audit Departments conduct subsequent audits and provide subsequent audit reports based on the results of the rectifying actions.

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## RELATIONSHIP WITH CONNECTED PERSONS AND CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS

Upon the 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. We expect such transactions will continue following the Listing, thereby constituting continuing connected transactions under the Listing Rules.

#### Fully Exempt Continuing Connected Transactions

##### (i) *Procurement of employee medical check-up service*

In order to establish healthcare profiles of the employees of the Bank and provide them with the benefit of professional and personalized healthcare guidance, the Bank has procured employee medical check-up service (including routine check-ups and new employee entry check-ups) from Zhengzhou Yihe Hospital (鄭州頤和醫院) (“**Yihe Hospital**”) since 2015, pursuant to which Yihe Hospital has provided various categories of routine medical check-ups for the employees of the Bank within different age groups.

Pursuant to the relevant internal rules of the Bank, the Bank choose the provider of employee medical check-up service through bidding process, and Yihe Hospital participated in and won the bid for each of 2015 and 2016, respectively, by virtue of its high quality service and competitive prices offered. The service fees the Bank paid to Yihe Hospital for the employee medical check-up for the two years ended December 31, 2015 and 2016 were approximately RMB450,000 and RMB1,200,000, respectively.

As of the Latest Practicable Date, Yihe Hospital was held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) (“**Henan Shengrun Group**”) as to 80%, which was in turn controlled by Mr. LI Xipeng (李喜朋) (“**Mr. Li**”), a non-executive Director, and his spouse. Therefore, Yihe Hospital will become a connected person of the Bank upon the Listing under Rule 14A.07(4) of the Listing Rules. If Yihe Hospital participates in and wins the bid for employee medical check-up service procurement of the Bank following the Listing, the Bank may continue to procure such service from Yihe Hospital, where each of the relevant percentage ratios (except for the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors currently expect, be less than 0.1% on an annual basis. Therefore, this transaction will be a continuing connected transaction under Rule 14A.76(1)(a) of the Listing Rules, and will be fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

##### (ii) *Property lease*

The Luoyang Branch of the Bank (the “**Luoyang Branch**”) entered into a property lease agreement and a supplementary agreement with Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) (“**Zongheng Pipeline Company**”) on November 1, 2015 and January 12, 2016, respectively (the “**Property Lease Agreements**”). Pursuant to the Property Lease Agreements, the Luoyang Branch may lease certain premise, located at the intersection of Kaiyuan Road and Changxing Street, Luoyang, Henan Province, the PRC, with a GFA of approximately 7,456.48 square meters (the “**Premise**”), from Zongheng Pipeline Company to be used as offices for a term of 10 years.

The Bank decided to lease the Premise from Zongheng Pipeline Company after considering the factors including geographical location, transportation situation and rentals. Under the Property Lease Agreement, the rentals and other charges shall be determined and paid as follows:

- the expenses of property management services, utility services and Internet services in relation to the use of the Premise shall be borne by the Luoyang Branch, while the taxes arising from the leasing of the Premise shall be borne by Zongheng Pipeline Company;

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## RELATIONSHIP WITH CONNECTED PERSONS AND CONNECTED TRANSACTIONS

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- the delivery of the Premise shall take place on February 1, 2016 and the lease of the Premise from February 1, 2016 to March 31, 2016 shall be free of charge, during which period Luoyang Branch does not need to pay any rental;
- the annual rental for the Premise shall be RMB8,052,998.4, calculated based on RMB90 per square meter per month (tax inclusive), for each of the initial three years from April 1, 2016 to March 31, 2019, and shall be increased by 10% once every two years thereafter;

The annual rental the Bank paid to Zongheng Pipeline Company for leasing the Premise for the year ended December 31, 2016 was RMB6,039,748.

Our independent property valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, has confirmed that the rental for leasing the Premise under the Property Lease Agreements is fair and reasonable, and reflects the market rates for similar property in the vicinity of the Premise.

As of the Latest Practicable Date, Zongheng Pipeline Company was controlled by Mr. LI Wanbin (李萬斌), a Supervisor of our Bank, and his spouse. Therefore, Zongheng Pipeline Company will become a connected person of the Bank upon the Listing under Rule 14A.07(4) of the Listing Rules. Pursuant to the Property Lease Agreement, the Bank will continue to lease the Premise following the Listing, where each of the relevant percentage ratios (except for the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors currently expect, be less than 0.1% on an annual basis. Therefore, this transaction will be a continuing connected transaction under Rule 14A.76(1)(a) of the Listing Rules, and will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### (iii) *Commercial banking services and products provided in the ordinary and usual course of business*

We are a commercial bank incorporated in the PRC and regulated by the 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 and/or their respective associates). Set forth below are details of continuing connected transactions between us and our connected persons, which are entered into on normal commercial terms (or commercial terms that are better to us) in the ordinary and usual course of our business.

#### *Loans and other credit facilities to connected persons*

We extend loans and other credit facilities to certain of our connected persons. 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 loans and other credit facilities are provided by us to our connected persons in our ordinary and usual course of business and on normal commercial terms or better with reference to prevailing market interest rates. Therefore, these transactions will constitute financial assistance provided by us to our connected persons in our ordinary and usual course of business and on normal commercial terms or better, which will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements by virtue of Rule 14A.87(1) of the Listing Rules.

#### *Deposits taking*

We take deposits from certain of our connected persons. We expect that our connected persons will continue to place deposits with the Bank following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

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## RELATIONSHIP WITH CONNECTED PERSONS AND CONNECTED TRANSACTIONS

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The deposits are placed by our connected persons with us on normal commercial terms or better with reference to prevailing market interest rates. Therefore, these transactions will constitute financial assistance received by us from our connected persons in the form of deposits on normal commercial terms or better and not secured by our assets, which will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements by virtue of Rule 14A.90 of the Listing Rules.

### *Other banking services and products*

We provide various commercial banking services and products (including wealth management products) to certain of our connected persons at normal fee standards. We expect that it will continue to provide such commercial 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.

The commercial banking services and products are provided by us to our connected persons in our ordinary and usual course of business and on normal commercial terms or better, which are expected to constitute de minimis transactions under Chapter 14A of the Listing Rules. Therefore, these transactions will be fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements by virtue of 14A.76(1) of the Listing Rules.

## TRANSACTIONS RELATING TO MR. LI AND HIS ASSOCIATES

We have provided comprehensive line of credit in a total amount of RMB3,000 million to certain associates of Mr. Li, which may be utilized within the scope of our business as agreed by the parties. As of the Latest Practicable Date, RMB2,750 million of such credit had been utilized as follows.

### (i) *Subscription of corporate bonds*

In November 2016, the Bank subscribed for a five-year private corporate bonds issued by Henan Shengrun Group (the “**Private Corporate Bonds**”) at the subscription price of RMB500 million with a fixed annual coupon rate of 7%.

The Bank subscribed for the Private Corporate Bonds through First Capital Securities Co., Ltd. (第一創業證券股份有限公司) (“**First Capital**”), an independent third party of the Bank and its fund manager acting on behalf of the Bank under a non-discretionary fund management scheme the Bank participated in. As instructed by the Bank, First Capital had paid up the full amount of the subscription price for the Private Corporate Bonds by the Bank's funds under the abovementioned non-discretionary fund management scheme as of November 18, 2016.

As of the Latest Practicable Date, Henan Shengrun Group was controlled by Mr. Li and his spouse. Therefore, Henan Shengrun Group will become a connected person of the Bank upon the Listing under Rule 14A.07(4) of the Listing Rules. Although Henan Shengrun Group will indirectly pay annual interest to the Bank pursuant to the terms of the Private Corporate Bonds, we had paid up the full amount of the subscription price before the Listing, and therefore its subscription for the Private Corporate Bonds constitutes a one-off transaction of the Bank prior to the Listing.

### (ii) *Provision of entrusted loan through an asset management scheme*

In June 2015, the Bank joined a non-discretionary asset management scheme (the “**Asset Management Scheme**”) managed by CITIC Securities Company Limited (中信證券股份有限公司), an independent third party of the Bank, which subsequently invested in a non-discretionary fund managed by Shenzhen Qianhai Dingli Investment Fund Management Company Limited (深圳前海鼎力投資基金管理有限公司) (“**Dingli Fund Management Company**”), an independent third party of the Bank.

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## RELATIONSHIP WITH CONNECTED PERSONS AND CONNECTED TRANSACTIONS

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In January 2017, Dingli Fund Management Company provided an entrusted loan to Zhengzhou Shengrun Real Estate Co., Ltd. (鄭州晟潤置業有限公司) (“**Shengrun Real Estate**”) in the amount of RMB1,000 million, being the initial amount invested by the Bank in the Asset Management Scheme, for a term of five years at a fixed annual interest rate of 5.5%.

As of the Latest Practicable Date, Shengrun Real Estate was indirectly held by Henan Shengrun Group as to 40%, therefore Shengrun Real Estate will become a connected person of the Bank upon the Listing under Rule 14A.07(4) of the Listing Rules. Although Shengrun Real Estate will indirectly pay annual interest to the Bank pursuant to the terms of the entrusted loan, the entrusted loan had been provided to Shengrun Real Estate before the Listing, and therefore such provision of entrusted loan through the Asset Management Scheme constitutes a one-off transaction of the Bank prior to the Listing.

(iii) *Other transactions relating to Mr. Li and his associates*

As of the Latest Practicable Date, in addition to the abovementioned transactions that had utilized RMB1,500 million in aggregate, the Bank also provided other credit facilities to certain entities indirectly controlled by Mr. Li that had utilized RMB1,250 million in aggregate, including: (i) loans of RMB150 million provided to Yihe Hospital; (ii) loans of RMB300 million provided to Zhengzhou Zhengdong New District Thermal Power Co., Ltd. (鄭州市鄭東新區熱電有限公司); (iii) loans of RMB300 million provided through trust scheme to Pingdingshan Tai’ao Expressway Co., Ltd. (平頂山太澳高速公路有限責任公司); and (iv) loans of RMB500 million provided through trust scheme to Pingdingshan Pinglin Expressway Co., Ltd. (平頂山平臨高速公路有限責任公司).

Pursuant to Rule 14A.07(4) of the Listing Rules, the entities controlled by Mr. Li will become our connected persons upon the Listing. The Bank expects that it will continue to provide credit facilities to associates of Mr. Li following the Listing, which will constitute continuing connected transactions for the Bank under Chapter 14A of the Listing Rules.

These credit facilities utilized by associates of Mr. Li are provided by us in our ordinary and usual course of business and on normal commercial terms or better with prevailing market interest rates. Therefore, these transactions will constitute financial assistance provided by us to our connected persons in our ordinary and usual course of business and on normal commercial terms or better, which will be fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements by virtue of Rule 14A.87(1) of the Listing Rules.

In relation to the public issuance of corporate bonds by Henan Shengrun Group in April 2016, Henan Shengrun Group has opened a bank account with the Bank for the deposit of the fund raised. The Bank expects that it will continue to provide such deposit taking services to Henan Shengrun Group, which will constitute continuing connected transactions for the Bank under Chapter 14A of the Listing Rules. As the deposits were placed with us on normal commercial terms or better with reference to prevailing market interest rates, this transaction will constitute financial assistance received by us from our connected persons in the form of deposits on normal commercial terms or better and not secured by our assets, which will be fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements by virtue of Rule 14A.90 of the Listing Rules.

Since 2015, the Bank has procured employee medical check-up service from Yihe Hospital, which was indirectly controlled by Mr. Li as of the Latest Practicable Date. For further details, please see “ — Continuing Connected Transactions — Fully Exempt Continuing Connected Transactions — (i) Procurement of employee medical check-up service”.

The Bank has established and adopted a management system on connected transactions, pursuant to which, the relevant departments involved in connected transactions will be responsible for the information gathering and monitoring of such transaction, and conducting evaluation on the fairness of the transaction terms and the pricing terms.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

The Board consists of eleven Directors, including five executive Directors, two non-executive Directors and four independent non-executive Directors. The Directors are elected for a term of three years and are subject to re-election, provided that the cumulative term of an independent non-executive Director shall not exceed six years pursuant to the relevant PRC laws and regulations. The following table sets forth certain information regarding the Directors.

Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a Director	Position held as of the Latest Practicable Date	Responsibility
Mr. DOU Rongxing (竇榮興)	54	December 2013	N/A	December 2014	December 23, 2014	Executive Director, chairperson of the Board	Responsible for the overall management, strategic planning and business development of the Bank
Ms. HU Xiangyun (胡相雲)	59	N/A	January 2010 (Joined Xinyang Bank)	December 2014	December 23, 2014	Executive Director, vice chairperson of the Board	In charge of the audit department, regional audit department I and regional audit department II of the Bank
Mr. WANG Jiong (王炯)	49	N/A	N/A	December 2014	December 23, 2014	Executive Director, president	Responsible for the daily operation and management and in charge of the strategic development department and the planning and financing department of the Bank
Mr. HAO Jingtao (郝驚濤)	46	N/A	N/A	December 2014	December 23, 2014	Executive Director, executive vice president	In charge of the operation of corporate business segments and investment business of the Bank
Mr. ZHANG Bin (張斌)	50	December 2013	N/A	December 2014	December 23, 2014	Executive Director, vice president and chief information officer	In charge of the information technology department of the Bank
Mr. LI Qiaocheng (李喬成)	54	N/A	N/A	March 2017	March 22, 2017	Non-executive Director	Responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of the Bank

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a Director	Position held as of the Latest Practicable Date	Responsibility
Mr. LI Xipeng (李喜朋)	53	N/A	N/A	February 2015	February 12, 2015	Non-executive Director	Responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of the Bank
Ms. PANG Hong (龐紅)	62	N/A	N/A	February 2015	February 12, 2015	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank
Mr. LI Hongchang (李鴻昌)	68	N/A	N/A	December 2014	December 23, 2014	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank
Mr. JIA Tingyu (賈廷玉)	74	N/A	N/A	August, 2016	August 4, 2016	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank
Mr. CHAN Ngai Sang Kenny (陳毅生)	52	N/A	N/A	May, 2017	May 15, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank

### Executive Directors

**Mr. DOU Rongxing (竇榮興)** is an executive Director and the chairperson of the Board, primarily responsible for the overall management, strategic planning and business development of the Bank.

Mr. Dou has over 30 years of experience in banking business management. In addition to his role as the chairperson of the Board, Mr. Dou is also the secretary to the party committee of the Bank. Mr. Dou's primary work experience prior to joining the Bank includes: (i) serving as the deputy chief (director-of-bureau level) and a member of the party group of the Office of Financial Service of Henan Government (河南省政府金融服務辦公室) from December 2013 to December 2014, during which period he also served as the executive director of the Leading Group Office, (ii) the director of the wholesales business and the general manager of the corporate banking department of China CITIC Bank (formerly known as CITIC Industrial Bank) from June 2013 to December 2013, and (iii) the

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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secretary to the party committee and the president of the Zhengzhou Branch of China CITIC Bank from January 2005 to June 2013. He worked as the vice president of the Zhengzhou Branch of China Merchants Bank from September 2002 to January 2005. Mr. Dou held several positions successively at the Henan Branch of the China Construction Bank from July 1985 to August 2002, including: (i) an officer, the deputy chief of the investment research institution, (ii) the deputy chief of funds planning department, (iii) the deputy general manager of finance department, (iv) the deputy chief and the chief of the inspection and audit department, (v) the chief of the planning and finance department, (vi) the secretary to the party committee and the president of the Xinxiang Branch, and (vii) the chief of asset preservation department and the president of the Jinyuan Sub-branch. Mr. Dou was recognized as the “Annual Henan Economic Leading Person (河南省年度經濟人物)” jointly by the Henan Province Development and Reform Commission (河南省發展和改革委員會) and other nine governmental departments in January 2016.

Mr. Dou received a bachelor’s degree in infrastructure finance and credit from Hubei College of Finance (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985, a master’s degree in investment finance from Zhongnan University of Finance (中南財經大學) (currently known as Zhongnan University of Economics and Law) in June 1995 and a doctor’s degree in management science and engineering from Huazhong University of Science and Technology (華中科技大學) in December 2005. Mr. Dou is a senior economist accredited by China Construction Bank in December 1997.

**Ms. HU Xiangyun (胡相雲)** is an executive Director and the vice chairperson of the Board, primarily in charge of the audit department, regional audit department I and regional audit department II of the Bank.

Ms. Hu has over seven years of experience in banking business management. Ms. Hu’s primary work experience prior to joining the Bank includes serving as: (i) the chairperson of the board of directors of Xinyang Bank from February 2010 to December 2014, (ii) the president of the Audit Office of Xinyang City (信陽市審計局) from September 2004 to January 2010, (iii) the deputy secretary of the Politics and Law Committee of the Xinyang Municipal Committee (信陽市委政法委) from November 2001 to August 2004, (iv) the deputy mayor of Xi County, Xinyang, Henan Province (河南省信陽市息縣) and the deputy secretary of the Xi Township Committee (息縣縣委) successively from August 1995 to October 2001, (v) the chief of the administrative business audit department of the Audit Office of Xinyang District (信陽地區審計局) from July 1991 to February 1995, (vi) the assistant to the town mayor of Chengguan Town, Huaibin County, Henan Province (河南省信陽市淮濱縣城關鎮) and the deputy secretary of the Chengguan Township Committee (城關鎮委) successively from December 1986 to November 1988, and an accountant of the Administration for Industry and Commerce of Xinyang District (信陽地區工商行政管理局) from February 1980 to November 1986.

Ms. Hu completed her undergraduate education in computer accounting at Henan University (河南大學) in July 1995 and her postgraduate education in Marxist theory and ideological and political education at Wuhan University (武漢大學) in June 2000. Ms. Hu is a certified public accountant accredited by Henan Institute of Certified Public Accountant (河南註冊會計師協會) in September 2010, an accountant accredited by Xinyang District Evaluation Leading Group for Accounting Professions (信陽地區會計系列職稱評定領導小組) in December 1992 and a qualified economist accredited by the Administrative Office of Xinyang District (信陽地區行政公署) in July 1993.

**Mr. WANG Jiong (王炯)** is an executive Director and the president of the Bank, primarily responsible for the daily operation and management and in charge of the strategic development department and the planning and financing department of the Bank.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Wang has more than 20 years of experience in banking business operations and management. Mr. Wang served as the secretary to the party committee and the president of the Haikou Branch of China CITIC Bank from May 2012 to December 2014, and was in charge of the planning group of the Haikou Branch of China CITIC Bank from November 2011 to May 2012. Prior to that, he successively held several positions in the Zhengzhou Branch of China CITIC Bank from March 2001 to November 2011, including the deputy general manager and the general manager of the planning and financing department, the assistant to the president, and the vice president. Mr. Wang's work experience also includes serving as the deputy manager, the manager, and the assistant to the general manager of the business department, the assistant to the general manager and the deputy general manager of the financial accounting department of the Zhengzhou Branch of China Guangfa Bank from December 1995 to March 2001. Before that, he worked at the Zhengzhou Railway Branch of China Construction Bank from August 1993 to November 1995 and at the human resources department of Zhengzhou College of Industry (鄭州工學院) from July 1990 and August 1993. Mr. Wang was recognized as the "Annual Henan Economic Leading Person" jointly by the Henan Province Development and Reform Commission and other nine governmental departments in February 2017.

Mr. Wang received a bachelor's degree in applied physics from Wuhan University (武漢大學) in July 1990, a secondary bachelor's degree in ideological and political education from Xi'an Jiaotong University (西安交通大學) in July 1994, and a doctor's degree in economics from Zhongnan University of Economics and Law in June 2009. Mr. Wang is a senior accountant accredited by the Review Committee of Senior Professional and Technical Positions of Accounting Professions of Henan Province (河南省會計系列高級專業技術職務評委會) in April 2000.

**Mr. HAO Jingtao (郝驚濤)** is an executive Director and the executive vice president of the Bank, primarily in charge of the operation of the corporate business segment and investment business of the Bank.

Mr. Hao has more than 20 years of experience in banking business operations and management. Prior to joining the Bank, Mr. Hao served as the vice president of the Hefei Branch of China Minsheng Banking Corp., Ltd. from December 2013 to December 2014 and as a member of the party committee and the vice president of the Guiyang Branch of China CITIC Bank from September 2011 to December 2013. He served successively as the deputy head of the planning group, the vice president, the secretary to the party committee and the president of the Luoyang Branch of China CITIC Bank from December 2007 to September 2011. In addition, he served successively as the general manager of corporate banking department of the Zhengzhou Branch of China CITIC Bank and the president of the Information Mansion Sub-branch of the Zhengzhou Branch of China CITIC Bank. His work experience also includes serving as the deputy president of the Zhengzhou Chengdong Sub-branch of Bank of China from December 2003 to February 2005, the president of the Xinmi Sub-branch of Bank of China from June 2001 to December 2003, and the deputy head of the accounting department of the Zhengzhou Wenhua Road Sub-branch of Bank of China from July 1999 to June 2001. Mr. Hao worked at the Zhengzhou Branch of Bank of China from July 1994 to July 1997.

Mr. Hao received a bachelor's degree in statistics from Zhongnan University of Finance in July 1994 and a master's degree in applied economics (financial engineering) from Renmin University of China (中國人民大學) in January 2012. Mr. Hao is an accountant accredited by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) in May 1998.

**Mr. ZHANG Bin (張斌)** is an executive Director, vice president and chief information officer of the Bank, primarily in charge of the information technology department of the Bank.

Mr. Zhang has more than 20 years of experience in banking business operations and management. Prior to joining the Bank, Mr. Zhang served as a member of the Leading Group Office from December 2013 to December 2014. His work experience also includes serving as the assistant to the general

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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manager, the deputy general manager and the general manager of the information technology department and the chief technology officer of China CITIC Bank successively from June 2005 to February 2014. In addition, he served as the deputy general manager of the science and technology department of the Beijing Branch of China Merchants Bank successively from July 1996 to May 2005.

Mr. Zhang received a bachelor's degree in computer-applied software from Hangzhou Dianzi Industry College (杭州電子工業學院) (currently known as Hangzhou Dianzi University (杭州電子科技大學)) in July 1989, a master's degree in software engineering from the Institute of Software of Chinese Academy of Science (中國科學院軟體研究所) in July 1996, a Master of Business Administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in July 2008, and an Executive Master of Business Administration degree from China Europe International Business School (中歐國際工商管理學院) in October 2015.

### Non-executive Directors

**Mr. LI Qiaocheng (李喬成)** is a non-executive Director, primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of the Bank.

Mr. Li has been the deputy general accountant and a director of Henan Energy and Chemical Engineering Group Co., Ltd. (河南能源化工集團有限公司) since April 2016 and May 2016, respectively. Prior to that, Mr. Li's primary work experience includes serving as (i) a member of the standing party committee, the director, the vice general manager of Henan Energy and Chemical Engineering Group Hemei Investment Co., Ltd. (河南能源化工集團鶴煤投資有限公司) and a researcher at the vice general manager level of Hebi Coal (Group) Co., Ltd. (鶴壁煤業(集團)有限責任公司) successively from November 2012 to April 2016, (ii) the deputy general accountant, the chief of the finance department and the general accountant of Jiaozuo Coal (Group) Co., Ltd. (焦作煤業(集團)有限責任公司) from May 2009 to November 2012, (iii) the head of the finance department of Yongcheng Coal and Electricity Group Co., Ltd. (永城煤電集團有限責任公司) and the director of finance of Yongmei Group Co., Ltd. (永煤集團股份有限公司) successively from May 2007 to May 2009, and (iv) the vice general manager and the director of finance of Henan Zhenglong Coal Co., Ltd. (河南正龍煤業有限公司) successively from December 2003 to May 2007. Prior to that, Mr. Li worked at Beilutian Mine of Yima Mining Bureau (義馬礦務局北露天礦) from December 1982 to January 1994. In addition, Mr. Li worked as an accountant at the Yima Mining Bureau Middle School (義馬礦務局中學) from August 1981 to November 1982.

Mr. Li received a technical secondary school diploma in finance and accounting from Zhengzhou Coal Technical School (鄭州煤炭工業學校) in July 1981 and a college diploma in corporate operation management from Henan Radio and Television University (河南廣播電視大學) in July 1986. He is a senior accountant accredited by Henan Government in September 2012.

**Mr. LI Xipeng (李喜朋)** is a non-executive Director, primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of the Bank.

Mr. Li has been the chairman of the board of directors of Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司) (formerly known as Henan Shengrun Venture Capital Management Co., Ltd. (河南盛潤創業投資管理有限公司)) ("**Henan Shengrun Group**") since October 2001, a director of Zhongyuan Trust Company Limited (中原信託股份有限公司) since January 2012 and a director of Fanxian Rural Commercial Bank Co., Ltd. ("**Fanxian Rural Commercial Bank**") since January 2017.

Mr. Li received a Master of Business Administration degree for senior management from Cheung Kong Graduate School of Business (長江商學院) in March 2006.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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*Other information required to be disclosed under Rule 13.51(2) of the Listing Rules*

Mr. Li was the legal representative of Henan Yusheng Petroleum Company (河南省豫盛石化公司) (“**Henan Yusheng Company**”), a limited liability company established in the PRC in April 1994, which mainly engaged in the sale of lubricant oil, heavy oil, chemical and engineering product (excluding flammable and combustible materials). The business license of Henan Yusheng Company was revoked in May 2003, and as confirmed by Mr. Li, such revocation was because Henan Yusheng Group was not deregistered within the required period after it ceased its business operation. Save as disclosed above, Mr. Li confirmed that there was no wrongful act on his part leading to the revocation of the business license of Henan Yusheng Company, and that no misconduct or misfeasance had been involved in the revocation of the business license of this company.

As of the Latest Practicable Date, Henan Shengrun Group was held by Mr. Li as to 51% and his spouse as to 49%, and Mr. Li has been a director of Henan Shengrun Group since October 2001.

Henan Shengrun Group received regulatory letters from CSRC Henan Office and Shenzhen Stock Exchange on January 3, 2017 and January 12, 2017, respectively, which were related to certain incidents of non-compliance with the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》) (the “**Non-compliance Incidents**”) arising from the public issuance of corporate bonds by Henan Shengrun Group in April 2016 (the “**2016 Shengrun Corporate Bonds**”), including (i) the tripartite bank account supervision agreement for the 2016 Shengrun Corporate Bonds was not timely signed, and the bank account of Henan Shengrun Group opened with the Bank for the proceeds raised from the 2016 Shengrun Corporate Bonds was also used for other non-proceeds funds and daily operating funds of Henan Shengrun Group (the “**Supervision Bank Account Incident**”); (ii) the 2016 interim report of Henan Shengrun Group did not comply with the requirements of providing sufficient disclosure on the actual use of the proceeds raised from the 2016 Shengrun Corporate Bonds; and (iii) Henan Shengrun Group did not disclose that it was named in the list of defaulters published by the courts due to its failure to perform a valid judgment (the “**Judgment**”) despite that the Supreme People’s Court removed Henan Shengrun Group from the list of defaulters in June 2016. In view of the Non-compliance Incidents, CSRC Henan Office required Mr. Li and the relevant staff of Henan Shengrun Group to have a regulatory conversation with them. In addition, Shenzhen Stock Exchange also issued a written warning to Henan Shengrun Group and requested for rectification.

According to the explanation and clarification given by Henan Shengrun Group, the occurrence of the Non-compliance Incidents was primarily due to (i) the relevant staff of Henan Shengrun Group had insufficient knowledge on the requirements of maintaining a designated bank account for bond issue proceeds and interim report disclosure, and Henan Shengrun Group and the Bank, being the proceeds supervision bank for the 2016 Shengrun Corporate Bonds, did not have timely communications in relation to the finalisation and execution of the tripartite bank account supervision agreement and the designated bank account for bond issue proceeds which led to certain misunderstandings causing the non-compliance; and (ii) Henan Shengrun Group was advised by its legal advisors that the amount involved in the Judgment was lower than the applicable threshold for disclosure of the Non-compliance Incidents, and Henan Shengrun Group has not received any official notification document regarding it being listed as a defaulter which should have been issued by the court pursuant to the applicable rules. In view of the Non-compliance Incidents, Henan Shengrun Group had arranged for its relevant staff to learn the applicable rules and requirements, and rectified the Non-compliance Incidents in accordance with the requests of the regulatory authorities.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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The Bank and the Directors are of the view that Mr. Li is competent to act as a Director for the following reasons:

- (i) Mr. Li has met all relevant requirements of CBRC Henan Office being a director and the appointment of Mr. Li as a Director had been approved by CBRC Henan Office in February 2015;
- (ii) as disclosed above, Mr. Li possesses over 15 years of experience in corporate management through serving as a chairman of the board or a director of several companies, including financial institutions, and has obtained a Master of Business Administration degree from Cheung Kong Graduate School of Business, which is an institution accredited by a competent body;
- (iii) leveraging upon these practical experience and educational background, Mr. Li has familiarized himself with the fiduciary duty being a director, the board functions, corporate governance measures, risk management and financial reporting system of corporations, particularly financial institutions, and is able to apply his knowledge and skills, care and diligence as may reasonably be expected from a Director;
- (iv) although Mr. Li is not an executive Director or involved in the daily operation of the Bank, he has been actively participating in the board meetings of the Bank and exercising his rights and performing his duties in considering and adopting board resolutions; and
- (v) Mr. Li has been making valuable contribution to the formulation and implementation of the development strategies of the Bank as a member of the Strategy and Development Committee, and regularly communicating with the chairperson of the Board with respect to significant matters of the Bank in accordance with the terms of reference of the Board.

Despite the occurrence of the Non-compliance Incidents, the Bank and the Directors are of the view that such incidents do not affect the suitability of Mr. Li to act as a Director for the following reasons:

- (i) the Non-compliance Incidents did not involve any act of dishonesty or fraud of Mr. Li or raise any concern on the integrity of Mr. Li;
- (ii) neither Henan Shengrun Group nor Mr. Li was subject to any penalty imposed by CSRC Henan Office or Shenzhen Stock Exchange as a result of the Non-compliance Incidents, nor has Mr. Li been held by any regulatory authority to be unsuitable to act as a director because of the Non-compliance Incidents;
- (iii) Mr. Li had attended the Directors' training session provided by the legal advisors to the Bank as to Hong Kong law in connection with the Listing. Mr. Li confirmed that after attending such training session, he has had an enhanced understanding of the laws and regulations applicable to companies listed on the Hong Kong Stock Exchange and their directors, and he will exercise the skill, care and diligence as reasonably expected of his appointment as a Director and will give due attention to ensure his compliance with the Listing Rules upon the Listing; and
- (iv) Mr. Li also confirmed that he will ensure his compliance with all applicable laws and regulations, including but not limited to the Listing Rules, by timely consulting with the compliance advisor of the Bank and where necessary, seeking independent legal advice from time to time, in particular, before the Bank entering into any transaction or undertaking any corporate action to which Chapters 14 and 14A of the Listing Rules apply.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Furthermore, the Bank is of the view that the Supervision Bank Account Incident does not have any material adverse impact on the Bank for the following reasons:

- (i) the Supervision Bank Account Incident did not involve any material deficiency in our internal control process;
- (ii) the Supervision Bank Account Incident was an isolated incident and not of a systemic nature, and the Bank has improved our internal working process and system since then. As of the Latest Practicable Date, no similar incident had occurred again; and
- (iii) the Bank has implemented enhanced internal control measures to ensure full compliance with the applicable laws and regulations going forward, including but not limited to, the appointment of Central China International Capital Limited as our compliance advisor and the establishment of our Risk Management Committee.

*Other information required to be disclosed under Rule 8.10(2) of the Listing Rules*

As of the Latest Practicable Date, Mr. Li indirectly held 9.88% of the equity interests in Fanxian Rural Commercial Bank, a rural commercial bank established in Puyang, Henan Province, the PRC, through Henan Shengrun Group, and Mr. Li has been a director of Fanxian Rural Commercial Bank since January 2017. Our Directors are of the view that, there is no competition or only minimal potential competition between Fanxian Rural Commercial Bank and our Bank arising from Mr. Li's interests and position in Fanxian Rural Commercial Bank for the following reasons:

- Fanxian Rural Commercial Bank conducts its business mainly within Puyang, Henan Province, whereas the business of our Bank operates across all 18 provincial cities in Henan Province. Furthermore, according to the financial statement of Fanxian Rural Commercial Bank as of and for the year ended December 31, 2016, the total assets, total operating income and net profit of Fanxian Rural Commercial Bank were approximately RMB4,409 million, RMB182 million and RMB44 million, equivalent to approximately 1.08%, 1.54% and 1.32% of the total assets, total operating income and net profit of our Bank for the same period, respectively, thus the potential competition between Fanxian Rural Commercial Bank and our Bank is minimal;
- Mr. Li serves as a non-executive director in both our Bank and Fanxian Rural Commercial Bank, and is not involved in the daily management of either our Bank or Fanxian Rural Commercial Bank; and
- our Bank has appointed four independent non-executive Directors, representing more than one-third of the members of the Board to balance any potential conflict of interests in order to safeguard the interests of our Bank and the Shareholders as a whole.

### **Independent Non-executive Directors**

**Ms. PANG Hong (龐紅)** is an independent non-executive Director, primarily responsible for supervising and providing independent advice on the operation and management of the Bank.

Ms. Pang has been a professor in the School of Finance of Renmin University of China (中國人民大學財政金融學院) since August 2010. Prior to that, she held several positions at Renmin University of China from December 1996 to August 2010, including the deputy secretary to the party committee in the School of Finance from January 2007 to August 2010, a deputy professor from July 2001 to August 2010, and a lecturer from December 1996 to July 2001. She also worked as a teacher in the School of Finance of Central University of Finance and Economics (中央財經大學財政金融學院) from September 1982 to December 1996. Ms. Pang was awarded the prize of "Innovation Pilot of Education in Beijing (北京市教育創新標兵獎)" by the Education Legal Union of Beijing Municipality



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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for the year from 2003 to 2004 and was named the “Teacher of the Year (優秀教師獎)” by Baosteel Education Foundation (寶鋼教育基金會) in November 2003. Ms. Pang was also awarded the title of the “Top 10 Pilot in Education (十大教學標兵)” by Renmin University of China in September 2002 and the title of the “Excellent Ideological and Political Workers in Beijing (北京市優秀思想政治工作者)” by the People’s Government of Beijing Municipality and the Communist Party of China Beijing Municipal Committee (中共北京市委) in March 1991.

Ms. Pang received a bachelor’s degree in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics) in August 1982 and a master’s degree in economics from Central University of Finance and Economics in March 2001.

**Mr. LI Hongchang (李鴻昌)** is an independent non-executive Director, primarily responsible for supervising and providing independent advice on the operation and management of the Bank.

Mr. Li has served as a professor and the dean of Zhengzhou College of Finance (鄭州財經學院) since September 2013. Prior to that, Mr. Li served as a professor at Henan University of Economics and Law (河南財經政法大學) from December 2008 to December 2011. In addition, Mr. Li successively held several positions at Henan College of Finance (河南財經學院) (currently known as Henan University of Economics and Law) from July 1985 to December 2008, including the vice chief and the chief of the finance department, the assistant to the dean, the vice dean and the dean researcher.

Mr. Li received a master’s degree in economics from Zhongnan University of Finance in November 1985. Mr. Li is a professor in economics accredited by the Review Committee of Senior Positions of College Teachers of Henan Province (河南省高校教師高級職務評委會) in November 1993 and was awarded the title of “Top Expert in Henan Province (河南省優秀專家)” by Henan Government and the Communist Party of China Henan Provincial Committee (中共河南省委) in July 1995.

**Mr. JIA Tingyu (賈廷玉)** is an independent non-executive Director, primarily responsible for supervising and providing independent advice on the operation and management of the Bank.

Mr. Jia has served as an independent non-executive director of Hang Seng Bank (China) Limited since January 2010, and a member of the audit committee and the chairperson of the risk committee under the board of Hang Seng Bank (China) Limited since May 2010 and April 2010, respectively. Prior to that, he concurrently served as the risk consultant, the deputy chief of the facility approval committee, the deputy chief of the audit committee, and a member of the assets and liability management committee of China CITIC Bank from January 2005 to September 2009. He served as the general manager of the risk control department, the deputy chief of the facility approval committee, and a member of the expert panel of China Merchants Bank successively from March 2000 to December 2004. Additionally, he served as the vice president and the president of the Chengdu Branch of China Merchants Bank successively from July 1997 to March 2000, and the deputy general manager of the facility approval department and the general manager of the department of planning and capital at China Merchants Bank successively from February 1992 to June 1997.

**Mr. CHAN Ngai Sang Kenny (陳毅生)**, is an independent non-executive Director, primarily responsible for supervising and providing independent advice on the operation and management of the Bank.

Mr. Chan has over 20 years of experience in accounting, taxation, auditing and corporate finance. He is a partner and the funder of Kenny Chan & Co., a firm of Certified Public Accountants (Practicing). In addition, Mr. Chan has served on several tribunals and committees of the Government of Hong Kong, which includes the Mandatory Provident Fund Schemes Appeal Board (強制性公積金

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計畫上訴委員會), the Occupational Retirement Schemes Appeal Board (職業退休計畫上訴委員會), and the Organizing Committee of the Hong Kong Youth Cultural & Arts Competitions Committee (全港青年學藝比賽大會統籌委員會), where he has served as the chairperson. He was a member of the Youth Program Coordinating Committee of the Commission on Youth of the Home Affairs Bureau (民政事務局青年委員會青年活動統籌委員會) from April 2015 to March 2017. Mr. Chan has been an independent non-executive director of several listed companies, including Combest Holdings Limited (HK.8190) since January 2002, Convoy Global Holdings Limited (HK.1019) since April 2015, WLS Holdings Limited (HK.8021) since April 2015, TSC Group Holdings Limited (HK.206) since October 2005, Amco United Holding Limited (HK.630) since June 2015, Sing On Holding Limited (HK.8352) since November 2016, and Minsheng Education Group Co., Ltd. (HK.1569) since March 2017. Mr. Chan expects that the time to be spent for his role as a partner of his accounting firm and his role as an independent non-executive director of several other listed companies will occupy approximately 30% and 30% of his working time, respectively. Mr. Chan also serves on the relevant tribunals and committees by providing professional advice with respect to accounting, taxation, auditing and corporate finance from time to time and he is not required to participate in the meetings of the tribunals and committees on a regular basis. It is expected that Mr. Chan will devote not more than 5% of his working time in the above tribunals and committees. Thus, he will have sufficient time to regularly attend the Board meetings of the Bank and serve as the chairman of the audit committee, and to fulfill his responsibilities and functions as an independent non-executive director of the Bank.

Mr. Chan is a member of the Institute of Chartered Accountants of New Zealand since March 1998, the Association of International Accountants since October 1998, the Hong Kong Society of Accountants (香港會計師公會)(currently known as the Hong Kong Institute of Certified Public Accountants) since February 1992, and the Hong Kong Institute of Directors (香港董事學會) since October 2016. Mr. Chan is also a member of the Taxation Institute of Hong Kong (香港稅務學會) since August 1998 and the Australian Society of Certified Practising Accountants since February 1989. Mr. Chan received a bachelor's degree in commerce (accounting and finance) from the University of New South Wales in Australia in October 1988.

### BOARD OF 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 the financial operations, internal control and risk management. The Board of Supervisors consists of nine Supervisors, including three employee representative Supervisors, three Shareholder representative Supervisors and three external Supervisors. The Supervisors are elected for a term of three years and may be subject to re-election, provided that the cumulative term of an external Supervisor shall not exceed six years pursuant to the relevant PRC laws and regulations. The following table sets forth certain information about the Supervisors.

Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a Supervisor	Position held as of the Latest Practicable Date	Responsibility
Mr. MA Guoliang (馬國梁)	60	December 2013	N/A	December 2014	December 23, 2014	Chairperson of the Board of Supervisors, employee representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank

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Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a Supervisor	Position held as of the Latest Practicable Date	Responsibility
Ms. JIA Jihong (賈繼紅)	53	N/A	May 2005 (joined Nanyang bank)	December 2014	April 6, 2017  March 20, 2017	Vice chairperson of the Board of Supervisors, employee representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank
Mr. SI Qun (司群)	52	N/A	May 2008 (joined Zhoukou Bank)	December 2014	December 23, 2014	Employee representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank
Mr. ZHAO Ming (趙明)	58	N/A	N/A	December 2014	December 23, 2014	Shareholder representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank
Ms. LI Weizhen (李偉真)	52	N/A	N/A	December 2014	December 23, 2014	Shareholder representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank
Mr. LI Wan Bin (李萬斌)	45	N/A	N/A	December 2014	December 23, 2014	Shareholder representative Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank
Mr. LI Xiaojian (李小建)	62	N/A	N/A	December 2014	December 23, 2014	External Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank

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Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a Supervisor	Position held as of the Latest Practicable Date	Responsibility
Mr. HAN Wanghong (韓旺紅)	63	N/A	N/A	December 2014	December 23, 2014	External Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank
Mr. SUN Xuemin (孫學敏)	54	N/A	N/A	April 2016	April 26, 2016	External Supervisor	Responsible for supervising the performance of duties by the Directors and the senior management of the Bank

**Mr. MA Guoliang (馬國梁)** is the chairperson of the Board of Supervisors and an employee representative Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Ma has more than 30 years of experience in banking business operations, supervision and management. Mr. Ma's work experience prior to joining the Bank includes serving as a member of the Leading Group Office from December 2013 to December 2014, the chief of the comprehensive management department of CBRC Henan Office from January 2012 to November 2014, the director of CBRC Sanmenxia Branch Office (中國銀監會三門峽監管分局) from May 2005 to December 2011, the deputy director of CBRC Luoyang Branch Office (中國銀監會洛陽監管分局) from January 2004 to April 2005 and the secretary of the discipline committee and the head of the labor union of the PBoC Luoyang Sub-branch from December 1985 to December 2003. Mr. Ma authored a research report in relation to the expedition of commencing the establishment of banks at the provincial level which was awarded the first prize in development research by Henan Government. Mr. Ma was a "Labor Model of Henan Province (河南省勞動模範)" recognized by Henan Government in April 1994.

Mr. Ma completed his undergraduate education in economic management through a correspondence course provided by the correspondence college of the Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院) in December 2002 and completed his undergraduate education in finance through online courses provided by Southwestern University of Finance and Economics (西南財經大學) in July 2004.

**Ms. JIA Jihong (賈繼紅)** is the vice chairperson of the Board of Supervisors and an employee representative Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Ms. Jia has more than 30 years of experience in banking business operations and management. Ms. Jia's primary work experience prior to joining the Bank includes serving as the president, the legal representative and the deputy secretary to the party committee of Nanyang Bank from December 2011 to December 2014, and the president, the legal representative and the deputy secretary to the party committee of Nanyang Commercial Bank Co., Ltd. from May 2005 to November 2011. Prior to that, Ms. Jia held several positions in the Nanyang Branch of Agricultural Bank of China, including the vice

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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president and the deputy secretary to the party committee from December 1996 to May 2005, the deputy section chief and the section chief of the information computer department successively from September 1989 to November 1996. Before that, Ms. Jia served as an accountant, a facility reviewer, the office chief, the vice president and the chairperson of the labor union of the Sheqi County Sub-branch of Agricultural Bank of China successively from February 1981 to September 1987.

Ms. Jia received a bachelor's degree in management from the Party School of the Central Committee of the Communist Party of China in December 1995, a master's degree in literature from Henan University in October 2001 and an Executive Master in Business Administration degree from Tsinghua University in July 2009. She studied at Wuhan Management Cadre College of Agricultural Bank of China (中國農業銀行武漢管理幹部學院) from September 1987 to July 1989. Ms. Jia is a certified senior consultant accredited by the Henan Science and Technology Committee (河南省科學技術委員會) in January 1999, a senior economist accredited by Agricultural Bank of China in December 2001 and received the basic qualification certificate for insurance agent from the CIRC in July 2002.

**Mr. SI Quan (司群)** is an employee representative Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Si has more than 20 years of experience in banking business operations and management. Mr. Si's work experience prior to joining the Bank includes serving successively as the president, the chairman and the secretary of the party committee of Zhoukou Bank from July 2011 to December 2014, the deputy secretary of the party committee and the general manager of Zhoukou Commercial Bank concurrently from August 2009 to June 2011, the deputy secretary of the party committee and the general manager of Zhoukou City Credit Union Co., Ltd. concurrently from May 2008 to August 2009. Prior to that, Mr. Si held several positions at the Zhoukou Branch of China Construction Bank from August 1993 to May 2008, including the manager of the finance and accounting department and the intermediary business department. He worked as a teacher at Zhoukou District School of Finance and Trade (周口地區財貿學校) from July 1988 to August 1993.

Mr. Si completed his undergraduate education in economics management at Henan University in July 1988.

**Mr. ZHAO Ming (趙明)** is a Shareholder representative Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Zhao's primary work experience prior to joining the Bank includes serving as the legal representative and executive director of Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司) since August 2007 and the chairperson of the board of directors of Henan Guangcai Transportation Construction Co., Ltd. (河南光彩交通建設有限公司) from April 1997 to August 2006. Mr. Zhao's work experience also includes serving as a member and a secretary of the Communication Section of the Publicity Department of the Communist Party of China of Xiangcheng County Committee (中共項城縣委宣傳部) successively from July 1988 to January 1993, an employee of Xiangcheng County Machinery Factory (項城縣機械廠職工) from July 1984 to June 1988, an employee of the Design Group of the Bureau of Water Conservancy Projects in Zhoukou District, Henan Province (河南省周口地區水利局設計隊) from June 1982 to June 1984, and an employee of the Bureau of Water Conservancy Projects of Taikang County (太康縣水利局) from July 1974 to May 1982. He was also a representative of the 10th, 11th and 12th People's Congress of Henan Province.

Mr. Zhao completed his undergraduate education in water engineering and construction at Zhengzhou Industrial College (鄭州工學院) in July 1978. Mr. Zhao is a senior economist accredited by the Henan Private Sector Science and Technology Senior Professionals Review Committee (河南省民營科技高評委) in December 2004.

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**Ms. LI Weizhen (李偉真)** is a Shareholder representative Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Ms. Li has been the deputy chief of Henan Mingrui Accounting Firm (河南明銳會計師事務所) since November 2015 and the general accountant of Zhengzhou Kangqiao Real Estate Development Co. Ltd (鄭州康橋房地產開發有限責任公司) since December 2009. Ms. Li's work experience also includes serving as the general manager of Henan Chenghe Accounting Firm (河南誠和會計師事務所) from June 2008 to November 2015 and the deputy chief accountant of Asia Pacific (Group) CPAs (亞太(集團)會計師事務所) from October 1993 to June 2008. Ms. Li has been an independent non-executive director of several listed companies, including Zhengzhou Coal Industry and Electric Power Co., Ltd. (鄭州煤電股份有限公司) (SH.600121) since May 2016, Henan Tongli Cement Co., Ltd. (河南同力水泥股份有限公司) (SZ.000885) since February 2016 and Zhongyuan Environment protection Co., Ltd. (中原環保股份有限公司) (SZ.000544) since July 2013.

Ms. Li completed her undergraduate education in planning and statistics in the department of economics at Zhengzhou University (鄭州大學) in July 1987 and received a master's degree in accounting from Zhengzhou University in June 1999. Ms. Li received the qualification as a PRC certified public accountant from the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2008 and was accredited as a senior accountant by the Senior Review Committee of Accounting Professions of Henan Province (河南省會計系列高評會) in November 2002.

**Mr. LI Wanbin (李萬斌)** is a Shareholder representative Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Li has been the chairperson of the board of directors of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) since March 2011. Before that, Mr. Li worked as a director, the vice president, the general manager, the vice chairman of the board of directors and a member of the party committee of Henan Blue Sky Group Co., Ltd. (河南藍天集團有限公司) successively from July 2003 to August 2008. In addition, Mr. Li served as the chairperson of the board of directors of several companies, including Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司) from August 2008 to March 2011, Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司) from October 2003 to October 2004, and Southern Henan Gas Co., Ltd. (河南省豫南燃氣有限公司) from September 2000 to December 2002. Mr. Li was also a director and the executive vice general manager of Henan Zhongyuan Gas and Chemical Engineering Investment Co., Ltd (河南中原氣化工程投資有限公司) from June 1999 to April 2001, and a sales personnel, the vice general manager and the general manager of Zhumadian Middle Distillate Co., Ltd. (駐馬店中油銷售有限公司) successively from July 1994 to June 1999.

Mr. Li received an Executive Master of Business Administration degree from Hong Kong University of Science and Technology (香港科技大學) in June 2012.

**Mr. LI Xiaojian (李小建)** is an external Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Li's primary work experience prior to joining the Bank includes serving as the principal of Henan University of Economics and Law from September 2010 to September 2015, the principal of Henan College of Finance from October 2003 to September 2010, the vice principal of Henan University from September 2001 to October 2003, and the dean of the school of environment and planning of Henan University from April 1994 to September 2001. Mr. Li's occupational and academic accomplishments have been recognized by many governmental authorities and institutions, including being accredited the title of "Outstanding Professional and Technical Talents in Henan Province (河南省傑出專業技術人才)" by Henan Government in August 2014 and the title of "Accomplished Entrepreneurs among the New Generation of Overseas Chinese (新橋成功創業人士)" by All-China

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Federation of Returned Overseas Chinese (中華全國歸國華僑聯合會) in August 2003 as well as being recognized as among the “Young and Middle-aged Experts with Outstanding Contributions (中青年有突出貢獻專家)” by the Department of Human Resources of the PRC (中華人民共和國人事部). Mr. Li received the “Special Allowance from State Council (國務院特殊人才津貼)” in February 1998 and was admitted to the “National Millions of Talents Projects (國家百千萬人才工程)” in August 1996. He was also a “National Labor Model in Education System (全國教育系統勞動模範)” and was awarded the “Medal for the People’s Teachers (人民教師獎章)” by the National Education Committee (國家教育委員會) and the Department of Human Resources of the PRC in September 1995. He was named as the “Top Experts in Henan Province” by Henan Government and the Communist Party of China Henan Provincial Committee in January 1993.

Mr. Li received a bachelor’s degree in geography from Henan Normal University (河南師範大學) in January 1982. He received a doctor’s degree in economical geography from Nankai University (南開大學) in June 1990 and completed a doctorate program at Australian National University in March 1990, respectively. Mr. Li is a professor accredited by Henan Government in November 1993.

**Mr. HAN Wanghong (韓旺紅)** is an external Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Han is currently a professor, a Ph.D. supervisor, and the deputy director of the Investment Study Centre of Zhongnan University of Economics and Law, as well as the vice president of the Committee of the Construction of the Investment Major of the Investment Association of China (中國投資協會投資學科建設委員會). Before that, he held various other positions at Zhongnan University of Economics and Law, including the head of the investment department from September 2004 to December 2011, and a lecturer and a deputy professor successively from September 1987 to August 2002.

Mr. Han received a bachelor’s degree in economics from Hubei College of Finance in July 1982, a master’s degree in economics from Zhongnan University of Finance in November 1985 and a doctor’s degree in industrial economics from Zhongnan University of Economics and Law in December 2008.

**Mr. SUN Xuemin (孫學敏)** is an external Supervisor, primarily responsible for supervising the performance of duties by the Directors and the senior management of the Bank.

Mr. Sun currently holds several positions at Zhengzhou University, including a professor in the business department since November 2001, the chief of the Strategic Research Centre of the Development of Modern Industry and Enterprises (現代產業與企業發展戰略研究中心) since April 2010 and the chief of the Corporation Research Centre (企業研究中心) since April 2004. Mr. Sun’s work experience also includes serving as an independent non-executive director of Jindan Rusuan Technology Co., Ltd. (河南金丹乳酸科技股份有限公司) (a company listed on the National Equities Exchanges and Quotations in the PRC, stock code: 832821) since April 2011, the legal representative and the executive director of Zhengzhou Jiebang Management Consulting Co., Ltd. (鄭州傑邦管理諮詢有限公司) since April 2005, the director of Zhengzhou High-Tech Valley of Technology Development Co., Ltd. (鄭州高創穀科技園開發有限公司) since July 2015, the legal representative and executive director of Zhengzhou Zhengda Yunchuang Technology Co., Ltd. (鄭州鄭大雲創科技有限公司) since December 2015. Mr. Sun served as a member and the deputy chief of the “Expert Committee for Small and Medium Enterprises in Zhengzhou” (鄭州市中小企業專家服務團) from December 2010 to May 2014.

Mr. Sun received a doctor’s degree in western economy from Huazhong University of Science and Technology in June 2008.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

The following table sets out certain information regarding the senior management of the Bank.

Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a member of senior management	Position held as of the Latest Practicable Date	Responsibility
Mr. WANG Jiong (王炯)	49	N/A	N/A	December 2014	December 23, 2014	President	Responsible for daily operation and management and in charge of the strategic development department and the planning and financing department of the Bank
Mr. HAO Jingtao (郝驚濤)	46	N/A	N/A	December 2014	April 2, 2015	Vice president	In charge of operation of corporate business segments and the investment business of the Bank
Mr. ZHANG Bin (張斌)	50	December 2013	N/A	December 2014	December 23, 2014	Vice president and chief information officer	In charge of the information technology department of the Bank
Mr. LIU Kai (劉凱)	46	December 2013	N/A	December 2014	December 23, 2014	Vice president	In charge of the accounting department and the administration management department of the Bank
Mr. LI Yulin (李玉林)	50	N/A	N/A	October 2016	October 28, 2016	Vice president	In charge of the retail business segments of the Bank
Mr. ZHAO Weihua (趙衛華)	40	December 2013	N/A	December 2014	December 23, 2014	Assistant to the president, chief risk officer	Responsible for the risk management of the Bank
Mr. WANG Liubao (王留豹)	52	N/A	October 2004 (Joined Kaifeng Commercial Bank)	December 2014	December 23, 2014	Assistant to the president	In charge of the compliance department and the administrative office of the Bank



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Name	Age	Time of joining the Leading Group Office	Time of joining the Thirteen City Commercial Banks	Time of joining the Bank	Date of appointment as a member of senior management	Position held as of the Latest Practicable Date	Responsibility
Mr. WEI Jie (魏傑)	53	N/A	January 2003 (Joined Shangqiu Bank)	December 2014	December 23, 2014	Assistant to the president	In charge of the legal department of the Bank
Mr. ZHANG Ke (張克)	39	December 2013	April 2010 (Joined Kaifeng Commercial Bank)	December 2014	December 23, 2014	Secretary to the Board	Responsible for the preparation of board meetings and shareholders meetings, and disclosure of information and other administrative matters of the Bank
Mr. FU Fei (付飛)	52	N/A	October 2004 (joined Anyang Bank)	December 2014	Pending on the approval of CBRC Henan Office <sup>(1)</sup>	General manager of the audit department	Responsible for arranging internal audit, reporting the audit status to audit committee of the Board and recommending advice
Ms. ZHANG Yi (張怡)	44	December 2013	N/A	December 2014	September 2, 2015	General manager of the planning and financing department	Responsible for the management of key financing and accounting matters of the Bank

*Note:*

<sup>(1)</sup> As of the Latest Practicable Date, the appointment of Mr. FU Fei was still subject to the approval of CBRC Henan Office.

For biographical details of **Mr. WANG Jiong (王炯)**, **Mr. HAO Jingtao (郝驚濤)** and **Mr. ZHANG Bin (張斌)**, please see “— Executive Directors”.

**Mr. LIU Kai (劉凱)** is a vice president of the Bank, primarily in charge of the accounting department and the administration management department of the Bank.

Mr. Liu has more than 20 years of experience in banking operations and management. Mr. Liu’s primary work experience prior to joining the Bank includes serving as: (i) a member of the Leading Group Office from December 2013 to December 2014, (ii) the assistant to the head of the Bureau of Financial Market of PBoC from August 2011 to November 2013, (iii) the president and the secretary to the party committee of PBoC Anyang Central Sub-branch and the head of the Anyang Central Sub-bureau of the State Administration of Foreign Exchange (國家外匯管理局安陽支局) from May 2007 to August 2011. He served successively as a chief section member, the deputy chief and the chief of the office of the party committee and the manager of the office of legal affairs of PBoC Zhengzhou

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Central Sub-branch from January 1999 to April 2007. Prior to that, Mr. Liu served successively as an officer and a section member of the finance management department and a deputy chief section member and a chief section member of the office of the Henan Branch of PBoC from July 1994 to January 1999. He worked at PBoC Tanghe County Sub-branch from July 1993 to July 1994.

Mr. Liu received a bachelor's degree in the science of law from Zhengzhou University in June 1993, and a master's degree in liberal arts from Henan University in June 2007. He received a certificate for passing the lawyer's qualification exam from the Department of Justice of Henan Province (河南省司法廳) in May 1995 and is a senior economist accredited by the PBoC in May 2005.

**Mr. LI Yulin (李玉林)** is a vice president of the Bank, primarily in charge of the retail business segments of the Bank.

Mr. Li has more than 25 years of experience in banking business operations and management. Prior to joining the Bank, Mr. Li served as the vice president of the Changsha Branch of China Merchants Bank from March 2016 to May 2016. Mr. Li held various positions successively in the Zhengzhou Branch of China Merchants Bank from August 2002 to February 2016, including: (i) the assistant to the office chief, (ii) the vice general manager of the business department, (iii) the vice general manager of the planning group of the Sub-branch II, (iv) the president of the Huayuan Road Sub-branch, (v) the general manager of the corporate banking department I, (vi) assistant to the president, (vii) the assistant to the president and the president of the Luoyang Branch, (viii) the member of party committee and the vice president. Mr. Li's work experience also includes serving as the vice president of the Huayuan Road Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited from March 2000 to August 2002. Mr. Li served successively as an accountant, a facility reviewer, the office chief and the vice president of the Railway Sub-branch of the Henan Branch of Industrial and Commercial Bank of China Limited from July 1989 to February 2000.

Mr. Li completed his undergraduate education in finance at Zhengzhou University in June 1989.

**Mr. ZHAO Weihua (趙衛華)** is an assistant to the president and the chief risk officer of the Bank, primarily responsible for the risk management of the Bank.

Mr. Zhao has more than 15 years of experience in banking operations and management. Prior to joining the Bank, Mr. Zhao served as a member of the Leading Group Office from December 2013 to December 2014. Before that, Mr. Zhao held various positions in the Zhengzhou Branch of China CITIC Bank from July 2009 to December 2013, including: (i) the assistant to the general manager of the risk management department and the retail banking department, (ii) the deputy general manager, the general manager of the risk management department and the manager of the credit approval department. In addition, he served as the credit approval manager of the Zhengzhou Branch of China CITIC Bank from July 2006 to February 2008. He worked as the assistant to the president of the Zhengzhou Zijing Shan Road Sub-branch of China CITIC Bank from February 2008 to July 2009. Prior to that, Mr. Zhao served as an accountant, a credit administrator, a specialized facility reviewer, the manager of the real estate facility department and the deputy manager of the real estate finance business department of the Henan Province Branch of China Construction Bank successively from August 1999 to August 2004. Mr. Zhao was named as one of the "Annual Management Members (年度優秀管理幹部)" of the Zhengzhou Branch of China CITIC Bank for four consecutive years from 2011 and was recognized as the "Top 100 Management Members (年度百佳管理幹部)" of China CITIC Bank in September 2012.

Mr. Zhao received a bachelor's degree in economics from Shaanxi College of Finance (陝西財經學院) (currently known as Xi'an Jiaotong University (西安交通大學)) in July 1999 and a Master of Business Administration degree from Sun Yat-Sen University (中山大學) in June 2006. Mr. Zhao is a mid-level economist accredited by the Human Resources Department of the PRC in November 2007.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. WANG Liubao (王留豹)** is an assistant to the president of the Bank, primarily in charge of the compliance department and administrative office of the Bank.

Mr. Wang has more than 12 years of experience in banking business management. His primary work experience prior to joining the Bank includes serving as: (i) the chairperson of the board of directors and the secretary of the party committee of Kaifeng Commercial Bank Co., Ltd. from October 2004 to December 2014, (ii) the vice president and a member of the party group of the Audit Office of Kaifeng City, Henan Province (河南省開封市審計局) from August 2001 to October 2004, (iii) the president and the secretary to the party committee of the Bureau of Finance of Weishi County, Henan Province (河南省尉氏縣財政局) from April 1998 to September 2000, and (iv) the assistant to the mayor of Weishi County, Henan Province from September 2000 to August 2001. Prior to that, Mr. Wang held various positions at the Office of the Communist Party of China Weishi Township Committee (中共尉氏縣委辦公室), including an officer, the deputy chief of the information department, the chief of the secretarial section and the deputy chief successively from July 1987 to April 1998. Mr. Wang has been working as a part-time professor at Henan University since July 2009.

Mr. Wang received a bachelor's degree in Chinese language and literature from Zhengzhou University in July 1987, a master's degree in political economics science from Henan University in September 1999, and a doctor's degree in business administration from Huazhong University of Science and Technology (華中科技大學) in June 2007. He is a senior economist accredited by Henan Government in November 2006.

**Mr. WEI Jie (魏傑)** is an assistant to the president of the Bank, primarily in charge of the legal department of the Bank.

Mr. Wei has more than 30 years of experience in banking operations and management. Mr. Wei's primary work experience prior to joining the Bank includes serving as the chairperson and the secretary to the party committee of Shangqiu Bank from December 2009 to December 2014, the chief, the deputy secretary and the secretary to the party committee, and the director and the general manager of Shangqiu City Credit Union Co., Ltd. from January 2003 to December 2009. Mr. Wei held several positions successively at the Shangqiu Branch of China Construction Bank from April 1992 to December 2002, including the deputy chief of facility department, the vice president, the president and the secretary to the party group of the Yongxia Mine District Sub-branch, and the president, the secretary to the party group and the secretary to the party general branch of the Liangyuan Sub-branch. He served as the chief of the construction economics section of the former Shangqiu Sub-branch of China Construction Bank from February 1987 to April 1992, and the member of the construction section and the deputy secretary to the communist youth league of the former Shangqiu District Central District of China Construction Bank from August 1983 to February 1987.

Mr. Wei received a technical secondary school diploma from School of Finance and Trade of Kaifeng (開封市財貿學校) in July 1983. He completed college education in fundamental construction economics at the Correspondence College of Remin University of China in June 1988 and completed undergraduate education in finance and investment at Henan University in July 1995 through long distance learning course.

**Mr. ZHANG Ke (張克)** is the secretary to the Board of the Bank, primarily responsible for the preparation of board meetings and shareholders meetings, and disclosure of information and other administrative matters of the Bank.

Mr. Zhang has more than 10 years of experience in banking operations and management. His primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office from December 2013 to December 2014, the general manager of the accounting finance department, the chief accountant and a director of Kaifeng Commercial Bank from April 2010 to December 2013, as well as a business manager of the corporate planning department of Henan

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Investment Group Co., Ltd. (河南投資集團有限公司) from July 2007 to March 2010. Before that, Mr. Zhang worked as a deputy chief officer in the accounting finance section of the Central Sub-branch of Sanmenxia City of the PBoC from July 1999 to June 2007. In addition, Mr. Zhang is an advisor for graduate students at Henan University for a term of three years commencing from January 2015.

Mr. Zhang received a bachelor's degree in management from Henan University of Finance in June 1999 and a Master of Business Administration degree from Xi'an University of Technology in April 2006.

**Mr. FU Fei (付飛)** is the general manager of the audit department of the Bank, primarily responsible for arranging internal audit, reporting the audit status to audit committee of the Board and recommending advice.

Mr. Fu has more than 10 years of experience in banking operation and management. He has served as the manager of the regional audit department II of the Bank since December 2014. Prior to joining the Bank, his primary work experience includes serving as the chairperson and the secretary to the party committee of Anyang Bank from August 2012 to December 2014, the chairperson of Anyang Commercial Bank from March 2008 to August 2012, and the secretary to the party committee, the managing director and the chief of Anyang City Credit Union from October 2004 to March 2008. Mr. Fu's work experience also includes serving as: (i) the deputy mayor of Wenfeng District, Anyang City, Henan Province (河南省安陽市文峰區) and a standing member of the Communist Party of Wenfeng District Committee, Anyang City, Henan Province (中共河南省安陽市文峰區區委) from March 2002 to October 2004, (ii) manager of Anyang Construction Investment Co., Ltd. (安陽市建設投資有限責任公司) from June 2000 to March 2002, (iii) the manager of the securities exchange business department, the assistant to the general manager, a member of the party group and the vice general manager of Anyang Trust Investment Co., Ltd. (安陽市信託投資公司) from March 1996 to June 2000. Mr. Fu worked at the Anyang Office of Economics Coordination (安陽市人民政府經濟協作辦公室) from March 1993 to March 1996, and served as an assistant to the lecturer, the lecturer at the People's Liberation Army Information Engineering College (中國人民解放軍信息工程學院) (currently known as People's Liberation Army Information Engineering University (中國人民解放軍信息工程大學)) from July 1989 to October 1992.

Mr. Fu received a bachelor's degree in physics from Peking University in July 1986 and a master's degree from the People's Liberation Army Information Engineering University in July 1989 and completed the advanced Henan public & business leadership development program at the Institute for Global Chinese Affairs at University of Maryland in December 2003.

**Ms. ZHANG Yi (張怡)** is the general manager of the planning and financing department of the Bank, primarily responsible for the management of key financing and accounting matters of the Bank.

Ms. Zhang has more than eight years of experience in banking operations and management. Her primary work experience prior to joining the Bank includes serving as a member of the Leading Group Office from December 2013 to December 2014, the deputy general manager of the planning and financing department from March 2011 to December 2013, and an employee and the assistant to the general manager of the planning and financing department of the Zhengzhou Branch of China CITIC Bank (中信銀行鄭州分行) successively from June 2008 to March 2011. Ms. Zhang worked as an employee in the finance and accounting department at Henan Finance Securities Co., Ltd. (河南財政證券公司) from August 2000 to December 2001 and as an officer in the Government Procurement Department of the Bureau of Finance of Henan Province (河南省財政廳政府採購處) from January 1999 to August 2000. Ms. Zhang worked at Central China Securities Co., Ltd. (中原證券股份有限公司) from January 2002 to June 2005. Prior to that, Ms. Zhang was transferred from Henan Finance

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Securities Co., Ltd. to serve as an officer in the Administrative Politics and Law Department of the Bureau of Finance of Henan Province (河南省財政廳行政政法處) from January 1995 to December 1998, and she served as an employee in the computer department of Henan Finance Securities Co., Ltd. from August 1994 to December 1994.

Ms. Zhang received a bachelor's degree in economics from Jiangxi Finance College (江西財經學院) in July 1994, a Master of Business Administration degree from Henan University in June 2004, and a doctor's degree in accounting from the Business School of Renmin University of China in June 2008. She is a senior accountant accredited by Henan Government in May 2005.

### JOINT COMPANY SECRETARIES

**Mr. ZHANG Ke (張克)**, is a joint company secretary of our Bank. For biographical details of Mr. Zhang, please see “— Senior Management”.

**Ms. LEUNG Wing Han Sharon (梁穎嫻)**, is a joint company secretary of our Bank. Ms. Leung currently serves a vice president of SW Corporate Services Group Limited. She has over 10 years of experience in finance, accounting and company secretarial matters.

Ms. Leung has a bachelor's degree in business administration (accounting), a bachelor's degree in law, and a master's degree in law (international corporate and financial law). She is a fellow member of the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會), the Institute of Chartered Secretaries and Administrators in UK (英國特許秘書與行政人員公會), and the Association of Chartered Certified Accountants in UK (英國特許公認及會計公會). She is also a member of the Hong Kong Institute of Certified Public Accountants.

### COMMITTEES UNDER THE BOARD OF DIRECTORS

Our Bank currently has five special committees under the Board, which are the Strategy and Development Committee, the Audit Committee, the Related Party Transactions Control Committee, the Risk Management Committee, and the Nomination and Remuneration Committee, and one standing committee under the Board, which is the Executive Committee. These committees operate in accordance with their respective terms of reference established by the Board.

#### Strategy and Development Committee

Our Bank has established a Strategy and Development Committee with written terms of reference. The Strategic Development Committee consists of six Directors, being Mr. DOU Rongxing, Ms. HU Xiangyun, Mr. WANG Jiong, Mr. HAO Jingtao, Mr. ZHANG Bin and Mr. LI Xipeng. The chairperson of the Strategic Development Committee is Mr. DOU Rongxing. The primary duties of the Strategic Development Committee include, among others, the following:

- studying and providing advice on our mid- and long-term development strategies;
- supervising, inspecting and evaluating the implementation of our development strategies;
- providing advice on the adjustment of our development strategies according to variations of operational environment;
- supervising and inspecting the implementation of our annual operational plans and investment plans;
- studying and providing advice on the development of information technology and other specialized development strategies of our Bank;

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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- studying and formulating strategies and policies of the social responsibilities of our Bank; and
- studying and implementing other significant matters of development strategies of our Bank.

### **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 four Directors, being Mr. CHAN Ngai Sang Kenny, Mr. LI Hongchang, Ms. PANG Hong and Mr. JIA Tingyu. The chairperson of the Audit Committee is Mr. CHAN Ngai Sang Kenny. The primary duties of the Audit Committee include, among others, the following:

- conducting inspections on our compliance, accounting policies, financial reporting procedures as well as our financial wellbeing;
- organizing and leading our annual audit work
- advising on the engagement or change of external auditors;
- ensuring the truthfulness, accuracy and completeness of the financial reports during the audit process and submitting them to the Board of Directors for review;
- conducting inspections on our internal control system;
- performing other responsibilities in accordance with applicable laws and regulations; and
- performing other responsibilities as authorized by our Board of Directors.

### **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. LI Hongchang, Ms. HU Xiangyun, Mr. HAO Jingtao, Ms. PANG Hong and Mr. JIA Tingyu. The chairperson of the Related Party Transactions Control Committee is Mr. LI Hongchang. The primary duties of the Related Party Transactions Control Committee include, among others, the following:

- managing our Related Party Transactions and formulating internal policies in accordance with relevant laws and regulations;
- identifying our Related Parties and reporting to the Board of Director and Board of Supervisors according to relevant laws and regulations;
- determining and reviewing our Related Party Transactions in accordance with relevant laws and regulations;
- submitting significant Related Party Transactions to the Board of Directors for approval, and submitting Related Party Transactions exceeding the authorization of the Board to the Shareholders' general meeting for approval;
- reviewing disclosure of significant Related Party Transactions; and
- performing other responsibilities as authorized by the Board of Directors.

### **Risk Management Committee**

Our Bank has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of six Directors, being Mr. WANG Jiong, Mr. HAO Jingtao, Mr. ZHANG Bin, Ms. PANG Hong, Mr. LI Hongchang and Mr. JIA Tingyu. The chairperson of the Risk

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Management Committee is Mr. WANG Jiong. The primary duties of the Risk Management Committee include, among others, the following:

- supervising our control over credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk, and legal and compliance risk;
- studying the macroeconomic policies, analyzing market changes and advising on the industry risk management;
- conducting periodic evaluation upon our risk management policies, management status as well as risk tolerance capabilities and advising on our risk management and internal control improvement;
- studying risk prevention solutions for significant risk events incurred in our operation and management; and
- performing other responsibilities as authorized by the Board of Directors.

### **Nomination and Remuneration Committee**

Our Bank has established a Nomination and Remuneration Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Nomination and Remuneration Committee consists of five Directors, being Ms. PANG Hong, Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Hongchang and Mr. JIA Tingyu. The chairperson of the Nomination and Remuneration Committee is Ms. PANG Hong. The primary duties of the Nomination and Remuneration Committee include, among others, the following:

#### *Nomination Duties*

- reviewing the structure, size and composition of the Board annually, and advising on any changes of the Board proposed in accordance with the strategies of our Bank;
- formulating the criteria and procedures for selecting Directors and senior management members, 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 and Appraisal Duties*

- contemplating the criteria for appraising Directors and senior management members, conducting the appraisal, and submitting the appraisal reports to the Board;
- reviewing the system and policy of our remuneration management, contemplating and reviewing the policy and plan for all Directors' and senior management's remuneration and contemplating the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to 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; and

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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- 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.

### Executive Committee

Our Bank has established an Executive Committee with written terms of reference. The Executive Committee consists of five Directors, being Mr. Dou Rongxing, Ms. HU Xiang Yun, Mr. WANG Jiong, Mr. HAO Jingtao and Mr. ZHANG Bin, and two senior management members (excluding those who are also Directors), being Mr. LIU Kai and Mr. ZHAO Weihua. The chairperson of the Executive Committee is Mr. DOU Rongxing. The primary duties of the Executive Committee include, among others, the following:

- thoroughly implementing the Board's decisions on our development strategies, business plans, investment proposals and etc.;
- considering any single significant equity investment or disposal of less than 10% of our latest audited net asset value and handling relevant matters;
- reviewing annual authorization plans relating to business, personnel, and financial affairs, and reviewing our operational and management systems and code of business conduct;
- determining establishment of internal management organizations under the Board's authorization, formulating general layout plans, and determining establishment of our branches according to the Board's decision;
- reviewing appointment and dismissal proposals of heads of internal management institutions and branches;
- preparing and formulating our medium and long term incentive schemes and implementation proposals, remuneration systems and policies;
- recommending candidates for the senior management; and
- other responsibilities as stipulated by the Articles or delegated by the Board.

### COMMITTEES UNDER THE BOARD OF SUPERVISORS

Our Bank has established two committees under the Board of Supervisors: the Supervision Committee and the Nomination Committee. These committees operate in accordance with terms of reference established by the Board of Supervisors.

#### Supervision Committee

The Supervision Committee consists of nine Supervisors, being Mr. LI Xiaojian, Ms. JIA Jihong, Mr. MA Guoliang, Mr. SI Qun, Mr. HAN Wanghong, Ms. LI Weizhen, Mr. LI Wanbin, Mr. ZHAO Ming and Mr. SUN Xuemin. The chairperson of the Supervision Committee is Mr. LI Xiaojian. The primary duties of the Supervision Committee include, among others, the following:

- drafting plans on supervising our Bank's financial activities, and implementing such supervisions;
- supervising the Board for the establishment of stable operation principle and value criteria, and formulating development strategies appropriate for our current situation; and
- supervising and examining our Bank's operation decisions, risk management and internal control.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Nomination Committee

The Nomination Committee consists of six Supervisors, being Mr. HAN Wanghong, Ms. JIA Jihong, Mr. MA Guoliang, Mr. SI Qun, Mr. LI Xiaojian and Mr. SUN Xuemin. The chairperson of the Nomination Committee is Mr. HAN Wanghong. The primary duties of the Nomination Committee include, among others, the following:

- advising on the scale and composition of the Board of Supervisors;
- 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 accordingly; and
- contemplating and formulating the remuneration policy and plan for Supervisors.

### COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The compensation and remuneration of the Directors, Supervisors and members of the senior management of the Bank are determined by the Shareholders' meetings and the Board, as appropriate in the form of salaries and bonuses. The Bank also reimburses them for expenses which are necessary and reasonably incurred in providing services to the Bank or discharging their duties in relation to the operations of the Bank. When reviewing and determining the specific remuneration packages for our Directors, Supervisors and members of the senior management of the Bank, the Shareholders' meetings and the Board take into account factors such as salaries paid by comparable companies, time commitment, level of responsibilities, employment elsewhere in our Group and desirability of performance-based remuneration. As required by the relevant PRC laws and regulations, the Bank also participates in various defined contribution plans organized by relevant provincial and municipal government authorities and welfare schemes for employees of the Bank, including medical insurance, injury insurance, unemployment insurance, pension insurance, maternity insurance and housing provident fund.

Our Bank offers executive Directors, employee representative Supervisors and senior management members, who are also employees, compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. The independent non-executive Directors and external Supervisors receive compensation based on their responsibilities.

The aggregate amounts of remuneration paid to the Directors, Supervisors and members of the senior management (excluding those who are also Directors) for the three years ended December 31, 2014, 2015 and 2016 were approximately RMB70.2 million, RMB36.9 million, and RMB41.8 million, respectively.

The aggregate amounts of remuneration paid to the five highest paid individuals for the three years ended December 31, 2014, 2015 and 2016 were approximately RMB8.2 million, RMB17.3 million, and RMB17.9 million, respectively.

It is estimated that remuneration equivalent to approximately RMB26.6 million in aggregate will be paid to the Directors and Supervisors by our Bank for the year ending December 31, 2017 based on the arrangements in force as of the date of this prospectus.

No remuneration was paid by the Bank to the Directors, Supervisors or the five highest paid individuals as inducement to join or upon joining the Bank or as a compensation for loss of office in respect of the three years ended December 31, 2014, 2015 and 2016. Furthermore, none of the Directors or Supervisors had waived or agreed to waive any remuneration during the same periods.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### DIRECTORS' AND SUPERVISORS' INTEREST

Except as disclosed in this prospectus, each of the Directors, Supervisors and members of the senior management (i) did not hold other positions in our Group as of the Latest Practicable Date; (ii) had no other relationship with any of the Directors, Supervisors and senior management 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 the Directors' and Supervisors' interests in the Shares within the meaning of Part XV of the SFO, please see "Appendix VII — Statutory and General Information".

Except as disclosed herein, none of the 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 the Directors and Supervisors, having made all reasonable inquiries, there were no additional matters with respect to the appointment of the Directors or Supervisors that need to be brought to the attention of the Shareholders and there were no additional information relating to the 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

The Bank has appointed Central China International Capital Limited as the compliance advisor pursuant to Rule 3A.19 of the Listing Rules, and 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 the H Shares, the possible development of a false market in the 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 the Bank distributes the annual report of its financial results for the first full financial year commencing after the Listing Date.

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## SUBSTANTIAL SHAREHOLDERS

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So far as the Directors are aware, as of the Latest Practicable Date, the following persons had an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Bank (as if the H Shares are listed on the Hong Kong Stock Exchange):

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Approximate % of interest in our Bank
Henan Investment Group Co., Ltd. <sup>(1)</sup> (河南投資集團有限公司) (“ <b>Henan Investment Group</b> ”)...	Beneficiary owner	Domestic Shares	1,500,000,000	9.02%
Yongcheng Coal and Electricity Holding Group Co., Ltd. <sup>(2)</sup> (永城煤電控股集團有限公司) (“ <b>Yongcheng Coal and Electricity</b> ”) .....	Beneficiary owner	Domestic Shares	1,232,960,305	7.42%
	Interest in controlled corporation	Domestic Shares	56,876,624	0.34%
Henan Energy and Chemical Engineering Group Co., Ltd. <sup>(3)</sup> (河南能源化工集團有限公司) (“ <b>Henan Energy and Chemical</b> ”) .....	Interest in controlled corporation	Domestic Shares	1,383,827,049	8.32%

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Global Offering assuming the Over-allotment Option is not exercised, the following persons will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to the Bank 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 the general meetings of the Bank:

Name of Shareholder	Nature of interest	Class of 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)		
			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 % of interest in our Bank	Approximate % of the relevant class of Shares
Henan Investment Group <sup>(1)</sup> .....	Beneficial owner	Domestic Shares	1,419,378,680	7.23%	8.69%	1,407,285,479	7.01%	8.64%
Yongcheng Coal and Electricity <sup>(2)</sup> .....	Beneficial owner	Domestic Shares	1,166,691,713	5.94%	7.15%	1,156,751,425	5.76%	7.11%
	Interest in controlled corporation	Domestic Shares	54,979,908	0.28%	0.34%	54,695,401	0.27%	0.34%
Henan Energy and Chemical <sup>(3)</sup> .....	Interest in controlled corporation	Domestic Shares	1,310,610,003	6.68%	8.03%	1,299,627,447	6.47%	7.98%

*Notes:*

- (1) Henan Investment Group is the largest Shareholder and one of the state-owned Shareholders. It is wholly-owned by The Henan Provincial Development and Reform Commission (河南省發展和改革委員會).
- (2) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Yongcheng Coal and Electricity will directly hold 1,166,691,713 Domestic Shares and indirectly hold 54,979,908 Domestic Shares through its controlled corporations, including 23,345,167 Domestic Shares to be directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司) (“**Yongcheng Jingchuang**”), 10,047,456 Domestic Shares to be directly held by Kaifeng Tieta Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司) (“**Kaifeng Tieta**”) and 21,587,285 Domestic Shares to be directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司) (“**Shangqiu Tianlong**”), respectively. By virtue of the SFO, Yongcheng Coal and Electricity is deemed to be interested in the Domestic Shares held by Yongcheng Jingchuang, Kaifeng Tieta and Shangqiu Tianlong.
- (3) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Henan Energy and Chemical will indirectly hold 1,310,610,003 Domestic Shares through its controlled corporations, including 1,166,691,713 Domestic Shares to be directly held by Yongcheng Coal and Electricity, 21,587,285 Domestic Shares to be directly held by Shangqiu Tianlong, 23,345,167 Domestic Shares to be directly held by Yongcheng Jingchuang, 10,047,456 Domestic Shares to be directly held by Kaifeng Tieta, 23,750,621 Domestic Shares to be directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司) (“**Anyang Chemical and Engineering**”), 15,755,726 Domestic Shares to be directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) (“**Henan Finance**”), and 49,432,035 Domestic Shares to be directly held by Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司) (“**Henan Guolong**”), respectively. By virtue of the SFO, Henan Energy and Chemical is deemed to be interested in the Domestic Shares held by Yongcheng Coal and Electricity, Shangqiu Tianlong, Yongcheng Jingchuang, Kaifeng Tieta, Anyang Chemical & Engineering, Henan Finance and Henan Guolong.

## SHARE CAPITAL

As of the Latest Practicable Date, the total issued share capital of the Bank was RMB16,625,000,000 divided into 16,625,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Immediately after completion of the Global Offering and assuming the Over-Allotment Option is not exercised, the total issued share capital of the Bank would be as follows:

Class of Shares	Number of Shares	Approximate percentage of share capital
Domestic Shares .....	16,325,000,000	83.18%
H Shares to be converted from Domestic Shares and offered by the Selling Shareholders pursuant to the Global Offering .....	300,000,000	1.53%
H Shares to be issued pursuant to the Global Offering.....	3,000,000,000	15.29%
<b>Total</b> .....	<b>19,625,000,000</b>	<b>100%</b>

Assuming the Over-allotment Option is exercised in full, the total issued share capital of the Bank would be as follows:

Class of Shares	Number of Shares	Approximate percentage of share capital
Domestic Shares .....	16,280,000,000	81.10%
H Shares to be converted from Domestic Shares and offered by the Selling Shareholders pursuant to the Global Offering .....	345,000,000	1.72%
H Shares to be issued pursuant to the Global Offering.....	3,450,000,000	17.19%
<b>Total</b> .....	<b>20,075,000,000</b>	<b>100%</b>

### THE SHARES

Upon completion of the Global Offering, the Bank would have two classes of Shares, namely Domestic Shares and H Shares. Both Domestic Shares and H Shares are ordinary shares in the share capital of the Bank. 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 the Shenzhen-Hong Kong stock exchanges connectivity mechanism (Shenzhen-Hong Kong Stock Connect) and other persons entitled to hold our H Shares pursuant to the relevant PRC laws and regulations or upon approval by any competent authorities, our H Shares generally may not be subscribed for by, or traded between, legal or natural persons of the PRC.

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 the Bank issues, 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 the Bank's plan to issue Domestic Shares and H Shares at the time of the establishment of the Bank is implemented

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## SHARE CAPITAL

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within 15 months from the date of approval by the securities regulatory authorities of the State Council; or (iii) where the conversion of the unlisted shares into overseas listed shares for listing and trading abroad by the Shareholders upon the approval by the banking regulatory authorities and the securities regulatory authorities.

### RANKING

Domestic Shares and H Shares are regarded as different classes of shares under the 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 the Articles of Association and summarized in “Appendix V — Summary of Articles of Association”.

Except for the differences above, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be declared in Renminbi and paid by the Bank in Hong Kong Dollars whereas all dividends in respect of Domestic Shares are to be paid by the Bank 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, 62 state-owned Shareholders are required to transfer to NSSF such number of Shares in aggregate equivalent to 10% of the number of the Offer Shares (being 300,000,000 H Shares before the exercise of the Over-allotment Option or 345,000,000 H Shares in the case of full exercise of the Over-allotment Option) or pay equivalent cash to NSSF at the Offer Price, or a combination of both. At the time of listing of the H Shares on the Hong Kong Stock Exchange, such Domestic Shares transferred by the state-owned Shareholders 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 sale of such H Shares.

The transfer of state-owned Shares by the abovementioned state-owned Shareholders was approved by the SASAC on April 10, 2017. The conversion of such Domestic Shares into H Shares was approved by CSRC on June 13, 2017.

Pursuant to a letter issued by NSSF (Shebaojijinf [2017] No. 59) on June 12, 2017, 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 NSSF. The Bank has been advised by its PRC legal advisors, King & Wood Mallesons, that the transfer and the conversion have been approved by the relevant PRC authorities.

### CONVERSION OF DOMESTIC SHARES INTO H SHARES

According to stipulations by the State Council securities regulatory authority and the Articles of Association, the Domestic Shares may be converted into H Shares. Such converted shares may be listed or traded on an overseas stock exchange provided that the conversion and trading of such converted shares shall only be effected after all requisite internal approval process have been duly completed and the approval from the relevant PRC regulatory authorities (including the CSRC) and the relevant overseas stock exchange have been obtained. In addition, such conversion and trading shall in all respects comply with the regulations prescribed by the State Council securities regulatory authority and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

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## SHARE CAPITAL

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If any of the Domestic Shares are to be converted to H Shares to be traded on the Hong Kong Stock Exchange, such conversion requires the approval of the relevant PRC regulatory authorities, including the CSRC. Subject to fulfilling the procedures below, the Bank 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 so 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 the Bank's 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 prior application for listing as at the time of the Bank's initial listing in Hong Kong. A vote by the shareholders in separate class meetings is not required for the listing and trading of the converted shares on an overseas stock exchange. Any listing of the converted shares on the Hong Kong Stock Exchange after the initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed conversion.

After all the requisite approvals have been obtained, the relevant Domestic Shares will be withdrawn from the China Securities Depository and Clearing Corporation Limited, and the Bank will re-register such Shares on the H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on the H Share register of the Bank will be on the conditions that (i) the 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 be traded 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 the H Share register of the Bank, such shares would not be listed as H Shares.

So far as the Directors are aware, none of the promoters of the Bank proposes to convert any of their Domestic Shares into H Shares.

### LOCK-UP PERIODS

In accordance with the PRC Company Law, the shares issued prior to any public offering of shares by the company cannot be transferred within one year from the date on which such publicly offered shares are listed and traded on the relevant stock exchange. As such, the Shares issued by our Bank prior to the issue of H Shares will be subject to such statutory restriction on transfer within a period of one year from the Listing Date.

The Directors, Supervisors and members of the senior management of the Bank shall declare their shareholdings in our Bank and any changes in their shareholdings. Shares transferred by our Directors, Supervisors and members of the senior management each year during their term of office shall not exceed 25% of their total respective shareholdings in our Bank. The Shares that the aforementioned persons held in our Bank cannot be transferred within one year from the date on which the shares are listed and traded, nor within half a year after they leave their positions in our Bank. The Articles of Association may contain other restrictions on the transfer of the Shares held by the Directors, Supervisors and members of senior management of the Bank.

In accordance with the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (《關於規範金融企業內部職工持股的通知》) for the regulation of the listing and circulation of staff shares and the strengthening of the management of secondary market circulation of such, a financial enterprise (which is listed or will be listed in the future) shall take steps to regulate the secondary market circulation of its staff shares which are held by its senior management, or individuals holding more than 50,000 staff shares. The aforementioned members of senior management or individuals shall undertake not to transfer the shares held by them within three years from the date of listing of the

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## SHARE CAPITAL

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financial enterprise. After the lapse of the lock-up period, the shares transferred by each of them in each year shall not exceed 15% of their respective total shareholdings in the financial enterprise. The aggregate number of shares transferred by them within five years of the lapse of the lock-up period shall not exceed 50% of their respective total shareholdings in the financial enterprise. Apart from the six-month lockup on our Bank's issue of Shares and the 12-month lockup on the controlling shareholders' disposal of shares, the laws of Hong Kong do not provide for restrictions related to shareholding volume or share transfers.

### **SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS**

For details of circumstances under which the Shareholders' general meeting and Shareholders' class meeting are required, see subsections "Notice of Meetings and Business to be Conducted Thereat" and "Change of Rights of Existing Shares or Classes of Shares" in "Appendix V — Summary of Articles of Association".



## ASSETS AND LIABILITIES

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 Appendices IA and IB attached to this prospectus. Our historical financial information has been prepared in accordance with IFRS. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in “Forward-Looking Statements” and “Risk Factors”.

### ASSETS

Our total assets increased by 47.8% from RMB206,947.8 million as of December 31, 2014 to RMB305,890.7 million as of December 31, 2015, and further increased by 41.6% to RMB433,071.4 million as of December 31, 2016, primarily due to (i) an increase in investment securities and other financial assets primarily as a result of our efforts to build our financial markets businesses, and (ii) an increase in gross loans and advances to customers primarily as a result of our continued efforts to grow our corporate banking and retail banking businesses. The principal components of our assets consist of (i) loans and advances to customers and (ii) investment securities and other financial assets, representing 36.6% and 42.3%, respectively, of our total assets as of December 31, 2016. The following table sets forth the components of our total assets as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Gross loans and advances to customers .....	111,132.8	53.7%	139,599.5	45.6%	164,888.5	38.1%
Allowance for impairment losses.....	(4,683.0)	(2.3%)	(5,723.4)	(1.8%)	(6,341.2)	(1.5%)
Loans and advances to customers, net .....	106,449.8	51.4%	133,876.1	43.8%	158,547.3	36.6%
Investment securities and other financial assets <sup>(1)</sup> .....	36,612.7	17.7%	88,724.8	29.0%	182,996.0	42.3%
Financial assets held under resale agreements.....	8,546.7	4.1%	24,559.4	8.0%	6,573.6	1.5%
Cash and deposits with central bank .....	40,787.5	19.8%	43,270.7	14.2%	49,370.9	11.4%
Deposits with banks and other financial institutions .....	5,159.6	2.5%	5,044.4	1.6%	12,830.5	3.0%
Placements with banks and other financial institutions .....	1.7	—	0.8	—	8,700.0	2.0%
Other assets <sup>(2)</sup> .....	9,389.8	4.5%	10,414.5	3.4%	14,053.1	3.2%
<b>Total assets .....</b>	<b><u>206,947.8</u></b>	<b><u>100.0%</u></b>	<b><u>305,890.7</u></b>	<b><u>100.0%</u></b>	<b><u>433,071.4</u></b>	<b><u>100.0%</u></b>

Notes:

- (1) Consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.
- (2) Consist primarily of property and equipment, deferred tax assets, interests in associates, goodwill and other assets.

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## ASSETS AND LIABILITIES

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### Loans and Advances to Customers

Loans and advances to customers are a substantial component of our assets. Our loans and advances to customers, net of allowance for impairment losses, accounted for 51.4%, 43.8% and 36.6% of our total assets as of December 31, 2014, 2015 and 2016, respectively. We provide a broad range of loan products to our customers through our distribution network. Substantially all of our customer loans are denominated in Renminbi. Except as otherwise indicated, the following discussions are based on our gross loans and advances to customers before taking into account the related allowance for impairment losses, rather than on our net loans and advances to customers. Our loans and advances to customers are reported net of the allowance for impairment losses on our statement of financial position.

Our gross loans and advances to customers increased by 25.6% from RMB111,132.8 million as of December 31, 2014 to RMB139,599.5 million as of December 31, 2015, and further increased by 18.1% to RMB164,888.5 million as of December 31, 2016, primarily due to our continued efforts to grow our corporate banking and retail banking businesses.

#### *Distribution of Loans by Business Line*

Our loans and advances to customers consist of corporate loans, personal loans and discounted bills. For a description of the loan products we offer, please see “Business — Our Principal Business Activities”. The following table sets forth our loans to customers by business line as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans.....	71,329.8	64.2%	99,261.4	71.1%	110,633.0	67.1%
Personal loans.....	24,215.4	21.8%	28,373.1	20.3%	44,659.8	27.1%
Discounted bills.....	15,587.6	14.0%	11,965.0	8.6%	9,595.7	5.8%
<b>Total loans to customers .....</b>	<b>111,132.8</b>	<b>100.0%</b>	<b>139,599.5</b>	<b>100.0%</b>	<b>164,888.5</b>	<b>100.0%</b>

#### *Corporate Loans*

During the Track Record Period, corporate loans were the largest component of our loan portfolio, representing 64.2%, 71.1% and 67.1% of our total loans to customers as of December 31, 2014, 2015 and 2016, respectively. Our corporate loans increased by 39.2% from RMB71,329.8 million as of December 31, 2014 to RMB99,261.4 million as of December 31, 2015 primarily due to our efforts to grow our corporate banking business, especially by developing new large strategic corporate banking customers, after the Reorganization. Our corporate loans further increased by 11.5% to RMB110,633.0 million as of December 31, 2016 primarily due to our continued efforts to develop our corporate banking business.

## ASSETS AND LIABILITIES

### *Distribution of Corporate Loans by Contract Maturity*

A majority of our corporate loans were short-term loans, with contract maturity of one year or less. The following table sets forth the distribution of our corporate loans by contract maturity as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans and advances <sup>(1)</sup> .....	61,145.2	85.7%	81,210.3	81.8%	87,314.3	78.9%
Medium- and long-term loans <sup>(2)</sup> .....	10,184.6	14.3%	18,051.1	18.2%	23,318.7	21.1%
<b>Total corporate loans</b> .....	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

*Notes:*

- (1) Consist of loans with contract maturity of one year or less and advances.  
(2) Consist of loans with contract maturity of more than one year.

Short-term loans accounted for 85.7%, 81.8% and 78.9% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively.

Medium- and long-term loans accounted for 14.3%, 18.2% and 21.1% of our corporate loans as of December 31, 2014, 2015 and 2016, respectively.

The changes in the maturity structure of our corporate loans and advances from 2014 to 2016 were primarily due to (i) the changes in the market demand for loans with different maturity, and (ii) the continued optimization of our loan structure during the interest rate reduction cycle by increasing the proportion of medium- and long-term loans.

### *Distribution of Corporate Loans by Product Type*

The following table sets forth the distribution of our corporate loans by product type as of the dates indicated. For details of each type of our corporate loans, please see “Business—Our Principal Business Activities—Corporate Banking—Corporate Loans”.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Working capital loans .....	64,394.0	90.3%	86,709.4	87.4%	96,416.0	87.1%
Fixed asset loans .....	6,483.1	9.1%	10,830.1	10.9%	13,032.3	11.8%
Trade finance .....	—	—	10.0	—	219.7	0.2%
Others <sup>(1)</sup> .....	452.7	0.6%	1,711.9	1.7%	965.0	0.9%
<b>Total corporate loans</b> .....	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

*Note:*

- (1) Consist primarily of advances under bank acceptances.

## ASSETS AND LIABILITIES

During the Track Record Period, working capital loans were the largest component of our corporate loans, representing 90.3%, 87.4% and 87.1% of our total corporate loans as of December 31, 2014, 2015 and 2016. Our working capital loans increased by 34.7% from RMB64,394.0 million as of December 31, 2014 to RMB86,709.4 million as of December 31, 2015, and further increased by 11.2% to RMB96,416.0 million as of December 31, 2016, primarily due to an increased demand for our working capital loans as a result of an expansion of our customer base.

Fixed asset loans accounted for 9.1%, 10.9% and 11.8% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively. Our fixed asset loans increased by 67.1% from RMB6,483.1 million as of December 31, 2014 to RMB10,830.1 million as of December 31, 2015, and further increased by 20.3% to RMB13,032.3 million as of December 31, 2016, primarily due to an increase in the demand for our fixed assets loans.

We commenced our trade finance business in 2015. Trade finance amounted to nil, RMB10.0 million and RMB219.7 million as of December 31, 2014, 2015, 2016, respectively, accounting for nil, 0.01% and 0.2% of our total corporate loans as of the same respective dates.

Other corporate loans consist primarily of advances under bank acceptances. Other corporate loans amounted to RMB452.7 million, RMB1,711.9 million and RMB965.0 million as of December 31, 2014, 2015 and 2016, respectively, accounting for 0.6%, 1.7% and 0.9% of our total corporate loans as of the same respective dates.

### *Distribution of Corporate Loans by Industry*

Our corporate loans consist of loans to corporate banking customers in a broad range of industries. The following table sets forth the distribution of our corporate loans by industry classification as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing.....	27,377.6	38.4%	34,317.5	34.6%	33,818.4	30.6%
Wholesale and retail .....	14,293.1	20.0%	20,320.3	20.5%	21,435.2	19.4%
Construction .....	5,424.9	7.6%	9,153.3	9.2%	9,998.5	9.0%
Real estate .....	7,140.7	10.0%	8,680.1	8.7%	9,586.3	8.7%
Leasing and business services .....	1,953.3	2.7%	2,830.2	2.9%	5,483.6	4.9%
Agriculture, forestry, animal husbandry and fishery .....	3,243.7	4.6%	5,590.9	5.6%	5,461.3	4.9%
Water, environment and public utilities ....	1,864.0	2.6%	3,057.1	3.1%	4,933.1	4.5%
Transportation, storage and postal services .....	1,269.8	1.8%	2,367.8	2.4%	3,424.0	3.1%
Mining.....	756.2	1.1%	2,047.8	2.1%	3,121.7	2.8%
Production and supply of electric power, gas and water .....	1,247.9	1.8%	2,582.2	2.6%	2,991.7	2.7%
Education.....	2,226.9	3.1%	2,483.0	2.5%	2,721.6	2.5%
Accommodation and catering .....	1,518.2	2.1%	1,828.2	1.8%	2,541.1	2.3%
Health, social security and social welfare .	1,160.5	1.6%	1,884.6	1.9%	2,393.8	2.2%
Public administration and social organizations .....	621.0	0.9%	775.0	0.8%	1,143.3	1.0%
Others <sup>(1)</sup> .....	1,232.0	1.7%	1,343.4	1.3%	1,579.4	1.4%
<b>Total corporate loans .....</b>	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

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## ASSETS AND LIABILITIES

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*Note:*

- (1) Consist primarily of (i) culture, sports and entertainment, (ii) finance, (iii) residential community services and other services, (iv) information transmission, software and information technology services and (v) scientific research, technical services and geological exploration.

The aggregate balance of loans to our corporate borrowers in (i) the manufacturing industry, (ii) the wholesale and retail industry, (iii) the real estate industry, (iv) the construction industry and (v) leasing and business services, being the top five industries in terms of our aggregate corporate loan exposure as of December 31, 2016, collectively accounted for 78.7%, 75.9% and 72.6% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively.

Our loans to corporate borrowers in the manufacturing industry accounted for 38.4%, 34.6% and 30.6% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively. The continued decreases in proportion of our loans to corporate borrowers in the manufacturing industry were primarily because we optimized the structure of our loan portfolio pursuant to our credit policies to control the credit extension to the manufacturing industry with high pollution, high energy consumption and overcapacity. Our loans to corporate borrowers in the manufacturing industry increased by 25.3% from RMB27,377.6 million as of December 31, 2014 to RMB34,317.5 million as of December 31, 2015 primarily because we extended more credit to quality manufacturing enterprises in Henan Province. Our loans to corporate borrowers in the manufacturing industry decreased by 1.5% to RMB33,818.4 million as of December 31, 2016 primarily because we controlled credit extension to certain manufacturing industries with high pollution, high energy consumption and overcapacity to reduce our risk exposure during the economic slowdown in 2016.

Our loans to corporate borrowers in the wholesale and retail industry accounted for 20.0%, 20.5% and 19.4% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively. Our loans to corporate borrowers in the wholesale and retail industry increased by 42.2% from RMB14,293.1 million as of December 31, 2014 to RMB20,320.3 million as of December 31, 2015, and further increased by 5.5% to RMB21,435.2 million as of December 31, 2016, primarily because we increased our customer base through, among others, developing innovative products in the wholesale and retail industry, such as the logistics and car dealership industries.

Our loans to corporate borrowers in the construction industry accounted for 7.6%, 9.2% and 9.0% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively. Our loans to corporate borrowers in the construction industry increased by 68.7% from RMB5,424.9 million as of December 31, 2014 to RMB9,153.3 million as of December 31, 2015, and further increased by 9.2% to RMB9,998.5 million as of December 31, 2016, primarily because we increased credit support to our cooperative large scale construction enterprises.

Our loans to corporate borrowers in the real estate industry accounted for 10.0%, 8.7% and 8.7% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively. The decrease in proportion of our loans to corporate borrowers in the real estate industry in 2015 was primarily because we optimized the structure of our loan portfolio pursuant to our credit policies. Our loans to corporate borrowers in the real estate industry increased by 21.6% from RMB7,140.7 million as of December 31, 2014 to RMB8,680.1 million as of December 31, 2015, and further increased by 10.4% to RMB9,586.3 million as of December 31, 2016, primarily because we increased credit support to quality real estate developers in economically developed regions in Henan Province, such as Zhengzhou.

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Our loans to corporate borrowers in the leasing and business service industry accounted for 2.7%, 2.9% and 4.9% of our total corporate loans as of December 31, 2014, 2015 and 2016, respectively. Our loans to corporate borrowers in the leasing and business service industry increased by 44.9% from RMB1,953.3 million as of December 31, 2014 to RMB2,830.2 million as of December 31, 2015, and further increased by 93.8% to RMB5,483.6 million as of December 31, 2016 primarily due to our continued efforts to develop quality leasing and business service customers.

### *Distribution of Corporate Loans by Exposure Size*

The following table sets forth the distribution of our corporate loan exposure to borrowers by size as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Over RMB500 million.....	—	—	550.0	0.6%	1,348.0	1.2%
Over RMB100 million to RMB500 million.....	305.9	0.4%	8,549.3	8.6%	17,509.2	15.8%
Over RMB50 million to RMB100 million.....	3,694.5	5.2%	8,287.0	8.3%	11,532.2	10.4%
Over RMB10 million to RMB50 million.....	37,706.5	52.9%	46,001.1	46.3%	47,441.3	42.9%
Up to RMB10 million .....	29,622.9	41.5%	35,874.0	36.2%	32,802.3	29.7%
<b>Total corporate loans .....</b>	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

Corporate loans of over RMB500 million increased from nil as of December 31, 2014 to RMB550.0 million (representing 0.6% of our total corporate loans) as of December 31, 2015, and further increased significantly to RMB1,348.0 million as of December 31, 2016 (representing 1.2% of our total corporate loans). Corporate loans of over RMB100 million to RMB500 million increased significantly from RMB305.9 million (representing 0.4% of our total corporate loans) as of December 31, 2014 to RMB8,549.3 million (representing 8.6% of our total corporate loans) as of December 31, 2015, and further increased significantly to RMB17,509.2 million as of December 31, 2016 (representing 15.8% of our total corporate loans). These increases in both absolute terms and percentages were primarily because after the Reorganization, we (i) increased the credit limit to single customers as we had more capitals, and (ii) improved our abilities to serve large customers and focused on developing large strategic corporate banking customers.

## ASSETS AND LIABILITIES

### *Distribution of Corporate Loans by Size of Corporate Borrowers*

The following table sets forth distribution of our corporate loans by size of borrowers as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Micro enterprises <sup>(1)</sup> .....	3,717.1	5.2%	8,918.0	9.0%	9,242.0	8.4%
Small enterprises <sup>(1)</sup> .....	39,582.1	55.5%	52,530.2	52.9%	65,503.2	59.2%
Medium enterprises <sup>(1)</sup> .....	23,531.8	33.0%	24,841.4	25.0%	18,082.3	16.3%
Large enterprises <sup>(1)</sup> .....	1,996.7	2.8%	7,845.0	7.9%	12,242.8	11.1%
Others <sup>(2)</sup> .....	2,502.1	3.5%	5,126.8	5.2%	5,562.7	5.0%
<b>Total corporate loans</b> .....	<b>71,329.8</b>	<b>100.0%</b>	<b>99,261.4</b>	<b>100.0%</b>	<b>110,633.0</b>	<b>100.0%</b>

*Notes:*

- (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.
- (2) Consist primarily of public institutions.

Our loans to micro enterprises as a percentage of our corporate loan portfolio accounted for 5.2%, 9.0% and 8.4% as of December 31, 2014, 2015 and 2016, respectively. Our loans to micro enterprises increased significantly from RMB3,717.1 million as of December 31, 2014 to RMB8,918.0 million as of December 31, 2015 primarily due to our continued efforts to develop our loan business for micro enterprises. Our loans to micro enterprises further increased by 3.6% to RMB9,242.0 million as of December 31, 2016.

Our loans to small enterprises as a percentage of our corporate loan portfolio accounted for 55.5%, 52.9% and 59.2% as of December 31, 2014, 2015 and 2016, respectively. Our loans to small enterprises increased by 32.7% from RMB39,582.1 million as of December 31, 2014 to RMB52,530.2 million as of December 31, 2015, and further increased by 24.7% to RMB65,503.2 million, primarily due to our continued efforts to develop our loan business for small enterprises.

Our loans to medium enterprises as a percentage of our corporate loan portfolio accounted for 33.0%, 25.0% and 16.3% as of December 31, 2014, 2015 and 2016, respectively. The continued decreases in proportion of our loans to medium enterprises were primarily because we optimized our loan structure by allocating more capital resources to large enterprises.

Our loans to large enterprises as a percentage of our corporate loan portfolio accounted for 2.8%, 7.9% and 11.1% as of December 31, 2014, 2015 and 2016, respectively. Our loans to large enterprises increased significantly from RMB1,996.7 million as of December 31, 2014 to RMB7,845.0 million as of December 31, 2015, and further increased by 56.1% to RMB12,242.8 million as of December 31, 2016, primarily because after the Reorganization, we (i) increased the credit limit to single customers as we had more capitals; and (ii) improved our abilities to serve large customers and focused on developing strategic large enterprise customers, which generally have better repayment capability.

## ASSETS AND LIABILITIES

### *Personal Loans*

As of December 31, 2014, 2015 and 2016, our personal loans accounted for 21.8%, 20.3% and 27.1% of our total loans to customers.

Our personal loans increased by 17.2% from RMB24,215.4 million as of December 31, 2014 to RMB28,373.1 million as of December 31, 2015, and further increased by 57.4% to RMB44,659.8 million as of December 31, 2016, primarily due to our efforts to grow our personal loan business.

### *Distribution of Personal Loans by Product Type*

The table below sets forth our personal loans by product type as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Personal business loans.....	15,213.4	62.8%	17,638.3	62.2%	19,460.5	43.6%
Residential mortgage loans .....	4,105.7	17.0%	6,366.1	22.4%	18,878.3	42.3%
Personal consumption loans .....	4,702.7	19.4%	4,155.6	14.6%	6,127.2	13.7%
Others <sup>(1)</sup> .....	193.6	0.8%	213.1	0.8%	193.8	0.4%
<b>Total personal loans .....</b>	<b>24,215.4</b>	<b>100.0%</b>	<b>28,373.1</b>	<b>100.0%</b>	<b>44,659.8</b>	<b>100.0%</b>

*Note:*

(1) Consist primarily of corporate credit cards.

Personal business loans accounted for 62.8%, 62.2% and 43.6% of our personal loans as of December 31, 2014, 2015 and 2016, respectively. Our personal business loans increased by 15.9% from RMB15,213.4 million as of December 31, 2014 to RMB17,638.3 million as of December 31, 2015, and further increased by 10.3% to RMB19,460.5 million as of December 31, 2016, primarily because (i) we increased credit support to certain individual business owners pursuant to the government policies to encourage innovation by start-ups, and (ii) we continued to increase our personal business loans with collateral and pledges, while prudently controlling the expansions pace of our unsecured and guaranteed personal business loans with comparatively high risks.

Residential mortgage loans accounted for 17.0%, 22.4% and 42.3% of our personal loans as of December 31, 2014, 2015 and 2016, respectively. Our residential mortgage loans increased by 55.1% from RMB4,105.7 million as of December 31, 2014 to RMB6,366.1 million as of December 31, 2015, and further increased significantly to RMB18,878.3 million as of December 31, 2016, primarily due to (i) an increase in the demand for our residential mortgage loans, and (ii) our strategy to develop more quality customers and allocate more capital resources to residential mortgage loans, which were of low risk.

Personal consumption loans accounted for 19.4%, 14.6% and 13.7% of our personal loans as of December 31, 2014, 2015 and 2016, respectively. The continued decreases in proportion of our personal consumption loans in our personal loans were primarily because we contain the growth of our unsecured and guaranteed personal consumption loans to reduce our risk exposure.

Other personal loans accounted for 0.8%, 0.8% and 0.4% of our personal loans as of December 31, 2014, 2015 and 2016, respectively.



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### *Distribution of Personal Loans by Size of Loans*

The following table sets forth the distribution of our outstanding personal loans by exposure size as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Over RMB5,000,000 .....	1,771.4	7.3%	2,599.8	9.2%	4,059.2	9.1%
Over RMB500,000 to RMB5,000,000.....	9,732.5	40.2%	12,929.9	45.6%	19,931.0	44.6%
Over RMB250,000 to RMB500,000.	5,516.3	22.8%	6,131.0	21.6%	11,388.7	25.5%
Over RMB100,000 to RMB250,000.	4,772.0	19.7%	4,783.3	16.9%	6,928.6	15.5%
Below RMB100,000 .....	2,423.2	10.0%	1,929.1	6.7%	2,352.3	5.3%
<b>Total personal loans .....</b>	<b>24,215.4</b>	<b>100.0%</b>	<b>28,373.1</b>	<b>100.0%</b>	<b>44,659.8</b>	<b>100.0%</b>

Our personal loans of over RMB500,000 to RMB5,000,000 were the largest portion of our total personal loans, accounting for 40.2%, 45.6% and 44.6% as of December 31, 2014, 2015 and 2016, respectively. Our personal loans of over RMB500,000 to RMB5,000,000 increased by 32.9% from RMB9,732.5 million as of December 31, 2014 to RMB12,929.9 million as of December 31, 2015, and further increased significantly to RMB19,931.0 million as of December 31, 2016, primarily due to the increases in our residential mortgage loans over RMB500,000 to RMB5,000,000 due to our efforts to develop residential mortgage loans in developed areas in Henan Province, such as Zhengzhou, in 2016.

### *Discounted Bills*

Discounted bills accounted for 14.0%, 8.6% and 5.8% of our total loans and advances to customers as of December 31, 2014, 2015 and 2016, respectively. Our discounted bills decreased by 23.2% from RMB15,587.6 million as of December 31, 2014 to RMB11,965.0 million as of December 31, 2015, and further decreased by 19.8% to RMB9,595.7 million as of December 31, 2016, primarily because we optimized our assets structure by controlling the amount of our discounted bills and allocating funds to loans and other assets with higher returns.

The following table sets forth a breakdown of our discounted bills by type of obligations as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Bank acceptance bills .....	15,323.6	98.3%	11,589.3	96.9%	9,393.4	97.9%
Commercial acceptance bills .....	264.0	1.7%	375.7	3.1%	202.3	2.1%
<b>Total discounted bills .....</b>	<b>15,587.6</b>	<b>100.0%</b>	<b>11,965.0</b>	<b>100.0%</b>	<b>9,595.7</b>	<b>100.0%</b>

## ASSETS AND LIABILITIES

Our discounted bills consisted of bank acceptance bills and commercial acceptance bills. Bank acceptance bills generally present lower credit risk than commercial acceptance bills, whereas commercial acceptance bills bear higher discount rates. As of December 31, 2014, 2015 and 2016, our bank acceptance bills accounted for 98.3%, 96.9% and 97.9% of our total discounted bills, respectively.

### *Distribution of Loans to Customers by Geographical Region*

We classify loans geographically based on the location of our branches or sub-branches 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 the distribution of our loans to customers by geographic region based on the location of relevant branches and sub-branches that originated such loans as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Head office and Zhengzhou.....	2,254.5	2.0%	8,522.9	6.1%	16,897.9	10.2%
Zhumadian .....	11,130.7	10.0%	14,270.7	10.2%	16,304.9	9.9%
Xuchang .....	10,717.2	9.6%	12,189.7	8.7%	13,742.6	8.3%
Kaifeng .....	12,470.3	11.2%	12,249.9	8.8%	13,662.2	8.3%
Shangqiu .....	9,220.5	8.3%	11,097.7	7.9%	12,937.1	7.8%
Nanyang .....	8,275.9	7.4%	9,990.5	7.2%	11,535.8	7.0%
Xinyang .....	9,358.7	8.4%	10,816.7	7.7%	11,220.6	6.8%
Xinxiang.....	10,870.3	9.8%	13,732.5	9.8%	10,021.5	6.1%
Sanmenxia .....	7,059.0	6.4%	8,390.0	6.0%	9,996.2	6.1%
Luohe .....	5,628.8	5.1%	6,970.9	5.0%	8,516.9	5.2%
Zhoukou .....	6,054.2	5.4%	7,437.8	5.3%	8,484.6	5.1%
Anyang.....	6,266.1	5.6%	7,110.2	5.1%	7,887.0	4.8%
Hebi .....	5,072.8	4.6%	6,323.6	4.5%	7,003.2	4.2%
Puyang .....	3,690.1	3.3%	4,843.3	3.5%	5,616.4	3.4%
Pingdingshan .....	254.7	0.2%	1,441.0	1.0%	3,381.5	2.1%
Jiyuan .....	—	—	—	—	1,007.5	0.6%
Jiaozuo .....	—	—	100.0	0.1%	962.2	0.6%
Luoyang.....	—	—	—	—	756.5	0.5%
Village and Township Banks .....	2,809.0	2.7%	4,112.1	3.1%	4,953.9	3.0%
<b>Total loans and advances to customers.....</b>	<b><u>111,132.8</u></b>	<b><u>100.0%</u></b>	<b><u>139,599.5</u></b>	<b><u>100.0%</u></b>	<b><u>164,888.5</u></b>	<b><u>100.0%</u></b>

## ASSETS AND LIABILITIES

### *Distribution of Loans and Advances by Collateral*

A substantial amount of our loans and advances to customers are secured by mortgages, pledges or guarantees. As of December 31, 2014, 2015 and 2016, our loans and advances to customer secured by mortgages, pledges or guarantees amounted to RMB108,761.7 million, RMB135,537.6 million and RMB158,217.2 million, representing 97.9%, 97.1% and 95.9% of our total loans to customers, respectively. The following table sets forth the distribution of our loans and advances to customers by type of collateral as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Unsecured loans.....	2,371.1	2.1%	4,061.9	2.9%	6,671.3	4.1%
Guaranteed loans .....	49,908.5	44.9%	64,436.7	46.2%	69,115.6	41.9%
Collateralized loans <sup>(1)</sup> .....	37,957.1	34.2%	47,686.8	34.2%	63,991.5	38.8%
Pledged loans <sup>(1)</sup> .....	20,896.1	18.8%	23,414.1	16.7%	25,110.1	15.2%
<b>Total loans and advances to customers.....</b>	<b>111,132.8</b>	<b>100.0%</b>	<b>139,599.5</b>	<b>100.0%</b>	<b>164,888.5</b>	<b>100.0%</b>

*Note:*

- (1) Represent the total amount of loans fully or partially secured by collateral or pledges 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.

During the Track Record Period, a majority of our loans to customers were secured by collateral or pledges. As of December 31, 2014, 2015 and 2016, our collateralized loans were RMB37,957.1 million, RMB47,686.8 million and RMB63,991.5 million, accounting for 34.2%, 34.2% and 38.8% of our total loans and advances to customers, respectively. As of the same dates, our pledged loans were RMB20,896.1 million, RMB23,414.1 million and RMB25,110.1 million, accounting for 18.8%, 16.7% and 15.2% of our total loans and advances to customers, respectively. The continued increases in our collateralized loans and pledged loans were primarily due to our marketing efforts for these loans with relatively low risks.

Our unsecured loans were RMB2,371.1 million, RMB4,061.9 million and RMB6,671.3 million as of December 31, 2014, 2015 and 2016, respectively, representing 2.1%, 2.9% and 4.1% of our total loans to customers as of the respective dates. The increases in our unsecured loans were primarily due to an increase in the number of our quality customers who can meet the qualification of our unsecured loans, such as large enterprises owned by the central government, large institutional customers and quality listed companies. In order to effectively manage and control potential risks associated with unsecured loans, we have implemented stringent application approval standards and procedures for granting unsecured loans. Conditions we impose on granting unsecured loans include scale of assets, gearing ratio, profitability, credit records and shareholder background of relevant applicants.

## ASSETS AND LIABILITIES

### *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. Please see “Supervision and Regulation—Other Operational and Risk Management Ratios”. The following table sets forth our loan exposure to our ten largest single borrowers as of the date indicated.

As of December 31, 2016					
Industry	Amount	% of total loans	% of regulatory capital <sup>(1)</sup>	Classification	
(in millions of RMB, except percentages)					
Borrower A .....	Leasing and business services	800.0	0.5%	2.1%	Normal
Borrower B .....	Mining	600.0	0.4%	1.7%	Normal
Borrower C .....	Water, environment and public facility management	582.0	0.4%	1.6%	Normal
Borrower D .....	Electricity, gas and water production and supply	572.0	0.3%	1.5%	Normal
Borrower E.....	Wholesale and retail	548.0	0.3%	1.4%	Normal
Borrower F.....	Mining	500.0	0.3%	1.3%	Normal
Borrower G .....	Mining	500.0	0.3%	1.3%	Normal
Borrower H .....	Manufacturing	470.0	0.3%	1.2%	Normal
Borrower I.....	Transportation, storage and postal services	454.0	0.3%	1.2%	Normal
Borrower J .....	Real estate	422.5	0.2%	1.1%	Normal
<b>Total .....</b>		<b>5,448.5</b>	<b>3.3%</b>	<b>14.4%</b>	

*Note:*

- (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 December 31, 2016, see “Financial Information — Capital Resources — Capital Adequacy”.

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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 as of the date indicated.

As of December 31, 2016					
Industry	Credit Exposure <sup>(1)</sup>	% of Regulatory Capital <sup>(2)</sup>	Loan Balances	% of Total Loans	Classification
(in millions of RMB, except percentages)					
Group A..... Mining	1,284.5	3.4%	1,229.5	0.7%	Normal
Group B..... Mining	1,077.6	2.8%	746.4	0.5%	Normal
Group C..... Electricity, gas and water production and supply	952.0	2.5%	952.0	0.6%	Normal
Group D ..... Leasing and business services	900.0	2.4%	900.0	0.5%	Normal
Group E..... Manufacturing	890.0	2.3%	590.0	0.4%	Normal
Group F ..... Wholesale and retail	750.0	2.0%	—	—	Normal
Group G ..... Manufacturing	699.6	1.8%	100.0	0.1%	Normal
Group H ..... Mining	670.0	1.8%	670.0	0.4%	Normal
Group I..... Leasing and business services	600.0	1.6%	450.0	0.2%	Normal
Group J..... Water, environment and public facility management	600.0	1.6%	600.0	0.4%	Normal
<b>Total.....</b>	<b>8,423.7</b>	<b>22.2%</b>	<b>6,237.9</b>	<b>3.8%</b>	

*Notes:*

- (1) Calculated pursuant to the applicable CBRC requirements by (i) adding up all on-balance-sheet credit amount and off-balance-sheet credit amount in respect of each group borrower; and (ii) deducting the total amount of security deposits, certificates of deposit and government bonds in respect of each group borrower.
- (2) 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 December 31, 2016, see “Financial Information — Capital Resources — Capital Adequacy”.

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### *Maturity Profile of Loan Portfolio*

The following table sets forth our loan products by remaining maturity as of the date indicated.

As of December 31, 2016						
	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	Indefinite/ repayable on demand	Total
(in millions of RMB)						
<b>Corporate loans</b>						
Working capital loans .....	18,648.1	65,341.6	7,588.8	—	4,837.5	96,416.0
Fixed asset loans .....	1,425.0	4,248.4	4,550.1	2,509.8	299.0	13,032.3
Trade finance .....	184.7	35.0	—	—	—	219.7
Others <sup>(1)</sup> .....	—	—	—	—	965.0	965.0
Sub-total .....	20,257.8	69,625.0	12,138.9	2,509.8	6,101.5	110,633.0
<b>Personal loans</b>						
Personal business loans .....	4,375.9	13,230.3	550.3	—	1,304.0	19,460.5
Residential mortgage loans .....	2.4	28.2	511.2	18,283.6	52.9	18,878.3
Personal consumption loans .....	744.8	2,624.1	2,422.1	151.0	185.2	6,127.2
Others <sup>(2)</sup> .....	189.9	—	—	—	3.9	193.8
Subtotal .....	5,313.0	15,882.6	3,483.6	18,434.6	1,546.0	44,659.8
<b>Discounted bills</b>						
Bank acceptance bills .....	4,922.0	3,991.2	—	—	480.2	9,393.4
Commercial acceptance bills .....	46.1	156.2	—	—	—	202.3
Subtotal .....	4,968.1	4,147.4	—	—	480.2	9,595.7
<b>Total loans and advances to customers .....</b>	<b>30,538.9</b>	<b>89,655.0</b>	<b>15,622.5</b>	<b>20,944.4</b>	<b>8,127.7</b>	<b>164,888.5</b>

*Note:*

- (1) Consist primarily of advances under bank acceptances.  
(2) Consist primarily of corporate credit cards.

As of December 31, 2016, our corporate loans with remaining maturities of up to one year amounted to RMB89,882.8 million, representing 81.2% of our total corporate loans, consisting primarily of working capital loans, which generally have tenors of less than one year.

As of December 31, 2016, our personal loans with remaining maturities of more than five years amounted to RMB18,434.6 million, representing 41.3% of our total personal loans, consisting primarily of residential mortgage loans, which generally have longer terms.

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### *Loan Interest Rate Profile*

In recent years, the PBoC has implemented a series of initiatives to gradually liberalize interest rates and establish a market-based interest rate regime. On July 20, 2013, the PBoC removed the floor rates for RMB-denominated loans (except for interest rates on residential mortgage loans) and allowed financial institutions in China to set interest rates based on commercial considerations.

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-time home buyers are required to be no less than 110% of the PBoC benchmark lending rate since April 17, 2010. Please 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 the CBRC on July 3, 2007, the principal determinants in classifying a loan should be based on the assessment of the repayment ability, the willingness of repayment, and the security of the borrower. We classify our loans using a five-category loan classification system, in accordance with CBRC’s guidelines. Please 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 (Excluding Loans to Small and Micro Enterprises)*

Our corporate loan (excluding loans to small and micro enterprises) classification criteria focus on a number of factors, to the extent applicable, including but not limited to (i) the borrower’s ability to repay the loans, 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 overdue periods of the loans; (iv) the borrower’s willingness to repay; (v) the profitability of the project financed by our loans; (vi) the collateral of the loans; (vii) the legal responsibility of the repayment of the loans; (viii) the current situation of the credit management of the Bank. The key factors for our loan classification are listed below. This is not intended to be an exhaustive list of all factors taken into account in classifying our loans. Please 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.

- neither the principal nor the interest is overdue;
- the borrower’s production and business are stable;
- the borrower has good credit history in the Bank;
- the borrower’s cash flows from normal business activities are stable and sufficient to service the loan; or
- the borrower has strong financing ability, and is in a business of good prospect;

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*Special Mention.* Loans should be classified as special mention if the borrower is able to service its loans, although repayment may be adversely affected by specific factors, including:

- the borrower's cash flows decrease or fluctuate obviously, or are not sufficient enough to service the loan, or there is an apparent trend that the borrower will encounter deteriorated operation and financial condition;
- there has been a substantial increase in the total amount of loans from the Bank, disproportionate to the borrower's operation income or its business expansion, for which the borrower has failed to offer any reasonable explanation to us, leading to our reasonable doubts in relation to the borrower's repayment ability;
- the new loans used for repaying previous loans and loans with extension of terms are overdue, or needed to be repaid by other financing methods;
- the borrower's certain other debts due to us or to other banks have become non-performing;
- there have been material changes in the borrower's substantial shareholders, affiliated entities, or parent or subsidiaries companies that may affect the borrower's repayment ability;
- there have been material changes of the borrower's senior management that may be adverse to the borrower's repayment ability;
- our loan file is incomplete and the missing documents may affect our ability to enforce the collection of the loans;
- the borrower has used the loan proceeds for a purpose inconsistent with the intended use of the proceeds;
- the borrower is suspected to seek to evade its repayment obligations to banks through mergers and acquisitions, reorganization or spin-offs in bad faith, or other factors that could affect its repayment obligation, although principal and interest payments are still current; or
- there have been adverse changes in the macro-economic environment, industry, market, or laws and regulations that may adversely affect the borrower's repayment ability.

*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 principal or any interest payments are overdue for a certain period of time and the interest receivable is not recognized as profit or loss in the current period;
- the loans require restructuring by amending repayment terms of loans due to the borrower's deteriorated financial condition or inability to pay;
- the loans are extended in violation of applicable laws and regulations;
- the borrower has to sell or dispose of assets for production and operation to maintain its operation or to resort to sale of collateral by auction or performance of guarantee for repayment of the loans, and the loss on the loans is estimated to be less than 30% of the outstanding loan balance;



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- the borrower has been caught up in major economic legal disputes, or the borrower fails to pay the debts ruled by judiciary authorities; or
- the borrower has encountered continuous financial difficulties, or the underlying project has been significant delayed which led to real cash flows fall far below the projected cash flow and thereby the borrower was unable to repay the loan on a timely basis.

*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:

- the principal or any interest payments are overdue for more than 360 days;
- the borrower is experiencing operational losses with payment difficulty and cannot obtain additional funding, and the loss on the loan is estimated to be above 50% of the outstanding loan balance even when collateral or guarantees are invoked;
- the borrower has been caught up in serious financial crisis and unable to repay the loans;
- the borrower's production or operations have been suspended or partially suspended, or the infrastructure project financed by our loans has been suspended;
- the loans are still overdue or the borrower is still unable to repay the loans notwithstanding a restructuring of the loan; or
- we have brought legal actions against the borrower to recover the loan, but even after the court's order is strictly enforced, we may still encounter huge loss on the loan.

*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 principal or any interest payments are overdue for more than 720 days;
- although the borrower's operations continue, there is no market for its products and the borrower has become insolvent, incurred significant losses and is about to fail, and the government has no plan to bail it out, and it has become clear that the borrower cannot honor its repayment obligations;
- the borrower or the guarantor has been declared bankrupt or been dissolved or closed down, and terminated as a legal entity, or had their business licenses revoked, the loans thereof remain unpaid after the pursuit of recovery;
- serious natural disaster or unforeseen events have resulted in significant losses of the borrower without insurance coverage or the loan remains unpaid in full or in part even after payment on insurance claims and our pursuit of recovery;
- the loans remain unpaid even after the conclusion of a judicial proceeding with respect to the borrower and the guarantor, or the enforcement of the guarantee or foreclosure on the collateral; or
- the action brought against the borrower and the guarantor has lapsed the statute of limitations, or we have lost the important documents evidencing our credit rights.

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### *Corporate Loans to Small Enterprises and Micro Enterprises*

Corporate loans to small and micro enterprises refer to loans we extend to companies classified as small and micro enterprises. According to loan classification criteria set forth in Measures for Classifying Small Business Loans (Trial Implementation) (CBRC [2007] No. 63) issued by the CBRC, 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 and micro enterprises 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
Unsecured loans.....	Normal		Special mention	Substandard	Doubtful	Doubtful	Loss
Guaranteed loans .....	Normal		Normal	Special mention	Substandard	Doubtful	Loss
Loans secured by mortgages .....	Normal		Normal	Special mention	Special mention	Substandard	Doubtful
Loans secured by pledges .....	Normal		Normal	Normal	Special mention	Substandard	Doubtful

### *Personal Loans*

Personal loans refer to residential mortgage loans, personal consumption loans, and personal non-consumption loans. Residential mortgage loans mainly include loans for purchasing first-hand and second-hand houses, and purchasing houses by housing provident funds discounts. Personal consumption loans include loans for purchasing automobile and domestic-use parking lots, personal comprehensive loans and commercial education loans. Personal non-consumption loans mainly include personal business loans.

In applying the loan classification criteria to personal loans, we primarily consider the length of time by which payments of principal or interest are overdue and the type of personal loans. The following table sets forth the five-category classification of our on-balance sheet loans to retail banking customers by time for which payments of principal or interest are overdue and different types of personal loans:

		Overdue by				
		Current	1-90 days	91-180 days	181-360 days	Over 360 days
Residential mortgage loans .....	Normal		Special mention	Special mention	Substandard	Doubtful
Personal consumption loans .....	Normal		Special mention	Substandard	Doubtful	Doubtful
Personal non-consumption loans .....	Normal		Special mention	Substandard	Doubtful	Doubtful

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### *Credit Cards Overdraft*

In applying the loan classification criteria to credit card overdrafts, we consider the length of time by which the required repayment is overdue. The table below sets forth the five-category classification of our credit card overdraft business in terms of the overdue period:

	Overdue days
Normal .....	0 days
Special mention .....	1-90 days
Substandard .....	91-120 days
Doubtful .....	121-180 days
Loss .....	Over 180 days

### *Distribution of Loans by 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 20 to our historical financial information included in the Accountants’ Reports in Appendices IA and IB to this document. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable. The following table sets forth the distribution of our loan portfolio by the five-category loan classification as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Normal .....	101,941.7	91.73%	119,237.6	85.41%	153,914.5	93.34%
Special mention .....	7,055.9	6.35%	17,642.7	12.64%	7,911.9	4.80%
Sub-total .....	108,997.6	98.08%	136,880.3	98.05%	161,826.4	98.14%
Substandard .....	1,227.8	1.11%	1,249.7	0.90%	856.5	0.52%
Doubtful .....	731.9	0.66%	731.0	0.52%	1,588.6	0.96%
Loss .....	175.5	0.15%	738.5	0.53%	617.0	0.38%
Sub-total .....	2,135.2	1.92%	2,719.2	1.95%	3,062.1	1.86%
<b>Total loans to customers .....</b>	<b>111,132.8</b>	<b>100.00%</b>	<b>139,599.5</b>	<b>100.00%</b>	<b>164,888.5</b>	<b>100.00%</b>
<b>Non-performing loan ratio<sup>(1)</sup> .....</b>		<b>1.92%</b>		<b>1.95%</b>		<b>1.86%</b>

*Note:*

(1) Calculated by dividing total non-performing loans by gross loans to customers.

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The following table sets forth the distribution of our loans to customers by business line and by the five-category loan classification system as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total <sup>(3)</sup>	Amount	% of total <sup>(3)</sup>	Amount	% of total <sup>(3)</sup>
	(in millions of RMB, except percentages)					
<b>Corporate loans</b>						
Normal .....	62,868.0	56.58%	81,368.1	58.28%	101,723.6	61.69%
Special mention .....	6,587.9	5.93%	15,777.2	11.30%	6,938.0	4.21%
Substandard .....	1,093.8	0.98%	947.0	0.68%	568.9	0.35%
Doubtful .....	619.6	0.56%	585.7	0.42%	1,086.7	0.66%
Loss.....	160.5	0.14%	583.4	0.42%	315.8	0.19%
Subtotal .....	<u>71,329.8</u>	<u>64.19%</u>	<u>99,261.4</u>	<u>71.10%</u>	<u>110,633.0</u>	<u>67.10%</u>
<b>Non-performing loan ratio<sup>(1)</sup></b> .....		<b>2.63%</b>		<b>2.13%</b>		<b>1.78%</b>
<b>Discounted bills</b>						
Normal .....	15,533.3	13.98%	11,435.7	8.19%	9,092.6	5.51%
Special mention .....	54.3	0.05%	529.3	0.38%	503.1	0.31%
Substandard .....	—	—	—	—	—	—
Doubtful .....	—	—	—	—	—	—
Loss.....	—	—	—	—	—	—
Subtotal .....	<u>15,587.6</u>	<u>14.03%</u>	<u>11,965.0</u>	<u>8.57%</u>	<u>9,595.7</u>	<u>5.82%</u>
<b>Non-performing loan ratio<sup>(1)</sup></b> .....		—		—		—
<b>Personal loans</b>						
Normal .....	23,540.4	21.18%	26,433.8	18.94%	43,098.3	26.14%
Special mention .....	413.7	0.37%	1,336.2	0.96%	470.8	0.29%
Substandard .....	134.0	0.12%	302.7	0.22%	287.6	0.17%
Doubtful .....	112.3	0.10%	145.3	0.10%	501.9	0.30%
Loss.....	15.0	0.01%	155.1	0.11%	301.2	0.18%
Subtotal .....	<u>24,215.4</u>	<u>21.78%</u>	<u>28,373.1</u>	<u>20.33%</u>	<u>44,659.8</u>	<u>27.08%</u>
<b>Non-performing loan ratio<sup>(1)</sup></b> .....		<b>1.08%</b>		<b>2.13%</b>		<b>2.44%</b>
<b>Total loans to customers</b> .....	<u><b>111,132.8</b></u>	<u><b>100.00%</b></u>	<u><b>139,599.5</b></u>	<u><b>100.00%</b></u>	<u><b>164,888.5</b></u>	<u><b>100.00%</b></u>
<b>Non-performing loan ratio<sup>(2)</sup></b> .....		<b>1.92%</b>		<b>1.95%</b>		<b>1.86%</b>

Notes:

- (1) Calculated by dividing non-performing loans in each business line by gross loans to customers in that business line.
- (2) Calculated by dividing total non-performing loans by gross loans to customers.
- (3) Calculated by dividing gross loans to customers in each category by total gross loans to customers.

Our non-performing loan ratio was 1.92%, 1.95% and 1.86% as of December 31, 2014, 2015 and 2016, respectively.

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Our non-performing loan ratio increased from 1.92% as of December 31, 2014 to 1.95% as of December 31, 2015 primarily due to an increase in our non-performing personal loan ratio from 1.08% as of December 31, 2014 to 2.13% as of December 31, 2015 as a result of deteriorated financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy, which was partially offset by a decrease in our non-performing corporate loan ratio from 2.63% as of December 31, 2014 to 2.13% as of December 31, 2015 as a result of (i) our efforts to recover existing non-performing corporate loans after the Reorganization, (ii) our strict risk management measures to control loans to corporations in high risk industries. Our non-performing loan ratio decreased from 1.95% as of December 31, 2015 to 1.86% as of December 31, 2016 primarily due to a decrease in our non-performing corporate loan ratio from 2.13% as of December 31, 2015 to 1.78% as of December 31, 2016 as a result of (i) our continued efforts to recover existing non-performing loans and (ii) our continued efforts to strengthen our risk management and (iii) our strategy to focus on developing quality customers with good credit records.

### *Loans classified as special mention*

As of December 31, 2014, 2015 and 2016, the balance of our loans and advances to customers that are classified as special mention was RMB7,055.9 million, RMB17,642.7 million and RMB7,911.9 million, respectively, representing 6.4%, 12.6% and 4.8%, respectively, of our total loans and advances to customers. The percentage of loans classified as special mention increased from 6.4% as of December 31, 2014 to 12.6% as of December 31, 2015 primarily because (i) the financial condition of certain customers deteriorated as a result of the slowdown of the PRC economy and (ii) we tightened our risk control after the Reorganization and downgraded certain personal business loans from normal to special mention. The percentage of loans classified as special mention decreased from 12.6% as of December 31, 2015 to 4.8% as of December 31, 2016 primarily because (i) we disposed of certain loans with a gross amount of RMB8,623.80 million to certain asset management companies and institutional investors at a consideration of RMB8,270.0 million, and (ii) we recovered certain existing loans classified as special mention in 2016. Please see “Our History and Development — Reorganization — Financial Restructuring”.

The following table sets forth the distribution of our loans of special mention category to customers by collateral as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Unsecured loans.....	59.2	0.8%	34.7	0.3%	1.7	—
Guaranteed loans .....	4,215.9	59.8%	10,554.4	59.8%	3,859.9	48.8%
Collateralized loans .....	2,397.4	34.0%	5,935.3	33.6%	3,331.9	42.1%
Pledged loans.....	383.4	5.4%	1,118.3	6.3%	718.4	9.1%
<b>Total loans of special mention category to customers .....</b>	<b><u>7,055.9</u></b>	<b><u>100.0%</u></b>	<b><u>17,642.7</u></b>	<b><u>100.0%</u></b>	<b><u>7,911.9</u></b>	<b><u>100.0%</u></b>

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### *Changes in Asset Quality of Our Loans*

The following table sets forth the changes in our non-performing loans for the periods indicated.

	For the year ended December 31,		
	2014	2015	2016
	(in millions of RMB, except percentages)		
<b>Beginning of the year</b> .....	1,082.9	2,135.2	2,719.2
<b>Increases</b> .....	1,433.3	1,570.4	2,176.1
<b>Decreases</b>			
Recoveries.....	80.6	302.0	578.5
Upgrades.....	—	143.8	391.3
Payment in kind.....	3.0	6.0	50.3
Write offs.....	297.4	320.8	813.1
Transfer out .....	—	213.8	—
<b>End of the year</b> .....	<u>2,135.2</u>	<u>2,719.2</u>	<u>3,062.1</u>
<b>Non-performing loan ratio</b> .....	1.92%	1.95%	1.86%

The following table sets forth the migration ratios of our loan portfolio calculated in accordance with the applicable CBRC requirements for the periods indicated.

	For the year ended December 31,		
	2014	2015	2016
Normal and special mention loans <sup>(1)</sup> .....	3.96%	4.52%	7.34%
Normal loans <sup>(2)</sup> .....	6.67%	26.61%	11.52%
Special mention loans <sup>(3)</sup> .....	51.30%	16.82%	32.17%
Substandard loans <sup>(4)</sup> .....	66.97%	74.72%	82.23%
Doubtful loans <sup>(5)</sup> .....	3.96%	100.00%	39.89%

*Notes:*

- (1) Represent 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) Represent 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) Represent 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.

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- (4) Represent 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) Represent 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 the distribution of our non-performing loans by product type as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	NPL ratio <sup>(4)</sup>	Amount	% of total	NPL ratio <sup>(4)</sup>	Amount	% of total	NPL ratio <sup>(4)</sup>
(in millions of RMB, except percentages)									
<b>Corporate loans</b>									
Short-term loans and advances <sup>(1)</sup> .....	1,485.7	69.6%	2.43%	1,751.6	64.3%	2.16%	1,791.4	58.5%	2.05%
Medium- to long-term loans <sup>(2)</sup> .....	388.2	18.2%	3.81%	364.5	13.4%	2.02%	180.0	5.9%	0.77%
Subtotal .....	<u>1,873.9</u>	<u>87.8%</u>	<u>2.63%</u>	<u>2,116.1</u>	<u>77.7%</u>	<u>2.13%</u>	<u>1,971.4</u>	<u>64.4%</u>	<u>1.78%</u>
<b>Personal loans</b>									
Personal business loans .....	179.9	8.4%	1.18%	520.9	19.2%	2.95%	907.0	29.6%	4.66%
Residential mortgage loans .....	13.5	0.6%	0.33%	9.9	0.4%	0.16%	23.6	0.8%	0.13%
Personal consumption loans .....	67.6	3.2%	1.44%	69.9	2.6%	1.68%	157.4	5.1%	2.57%
Others <sup>(3)</sup> .....	0.3	—	0.15%	2.4	0.1%	1.13%	2.7	0.1%	1.39%
Subtotal .....	<u>261.3</u>	<u>12.2%</u>	<u>1.08%</u>	<u>603.1</u>	<u>22.3%</u>	<u>2.13%</u>	<u>1,090.7</u>	<u>35.6%</u>	<u>2.44%</u>
<b>Total non-performing loans</b> .....	<u><b>2,135.2</b></u>	<u><b>100.0%</b></u>	<u><b>1.92%</b></u>	<u><b>2,719.2</b></u>	<u><b>100.0%</b></u>	<u><b>1.95%</b></u>	<u><b>3,062.1</b></u>	<u><b>100.0%</b></u>	<u><b>1.86%</b></u>

*Notes:*

- (1) Consist of loans with maturity of one year or less and advances.
- (2) Consist of loans with maturity of more than one year.
- (3) Consist primarily of corporate credit cards.
- (4) Calculated by dividing non-performing loans in each product type by gross loans in that product type.

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## ASSETS AND LIABILITIES

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Our NPL ratio as of December 31, 2014, 2015 and 2016 was higher than the industry average as of the same dates mainly because during the Reorganization we inherited from the Thirteen City Commercial Banks certain assets and customers of lower quality. After the Reorganization, the Bank has continuously made efforts to recover existing non-performing loans, strengthen risk management measures, and develop quality customers with good credit records. However, the decrease in the non-performing corporate loan ratio was offset by higher non-performing personal loan ratio as a result of deteriorated financial condition and repayment abilities of certain individual business during the slowdown of the PRC economy.

### *Non-performing Corporate Loans*

Our non-performing corporate loans increased by 12.9% from RMB1,873.9 million, (representing non-performing loan ratio of 2.63%) as of December 31, 2014 to RMB2,116.1 million as of December 31, 2015 (representing non-performing loan ratio of 2.13%) primarily due to operational difficulties and deteriorated repayment abilities of certain of our corporate banking customers, especially the small and medium enterprises, during the slowdown of the PRC economy.

Our non-performing corporate loans decreased slightly by 6.8% from RMB2,116.1 million (representing non-performing loan ratio of 2.13%) as of December 31, 2015 to RMB1,971.4 million (representing non-performing loan ratio of 1.78%) as of December 31, 2016 primarily due to decreases in medium- to long-term loans and advances under bank acceptances, which were attributable to (i) our continued efforts to recover non-performing loans and (ii) the improvement of our loan quality due to our strict risk management measures to limit credit extension to enterprises with high risks.

### *Non-performing Personal Loans*

Our non-performing personal loans increased significantly from RMB261.3 million (representing non-performing loan ratio of 1.08%) as of December 31, 2014 to RMB603.1 million (representing non-performing loan ratio of 2.13%) as of December 31, 2015 primarily due to a significant increase in our non-performing personal business loans from RMB179.9 million in 2014 to RMB520.9 million in 2015, resulting from deteriorated financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy.

Our non-performing personal loans increased by 80.8% from RMB603.1 million (representing non-performing loan ratio of 2.13%) as of December 31, 2015 to RMB1,090.7 million (representing non-performing loan ratio of 2.44%) as of December 31, 2016 primarily due to increases in our non-performing personal business loans and personal consumption loans because individual business owners and individuals have relatively low risk bearing capabilities during the economic slowdown in 2016.



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### *Distribution of Non-Performing Corporate Loans by Industry*

The following table sets forth the distribution of our non-performing loans to corporate banking customers by industry as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>
(in millions of RMB, except percentages)									
Manufacturing .....	1,081.6	57.7%	3.95%	1,139.3	53.8%	3.32%	995.8	50.5%	2.94%
Wholesale and retail .....	219.2	11.7%	1.53%	532.9	25.2%	2.62%	440.5	22.3%	2.06%
Real estate.....	97.1	5.2%	1.36%	112.8	5.3%	1.30%	280.7	14.2%	2.93%
Accommodation and catering .....	56.3	3.0%	3.71%	46.7	2.2%	2.55%	83.4	4.2%	3.28%
Construction .....	91.1	4.9%	1.68%	84.7	4.0%	0.93%	49.5	2.5%	0.50%
Transportation, storage and postal services .....	25.0	1.3%	1.97%	46.8	2.2%	1.98%	35.1	1.8%	1.03%
Leasing and business services .....	49.1	2.6%	2.51%	29.9	1.4%	1.06%	29.8	1.5%	0.54%
Agriculture, forestry, animal husbandry and fishery .....	52.1	2.8%	1.61%	86.7	4.1%	1.55%	27.2	1.4%	0.50%
Education .....	25.0	1.3%	1.12%	—	—	—	20.0	1.0%	0.73%
Others <sup>(2)</sup> .....	177.4	9.5%	2.58%	36.3	1.8%	0.31%	9.4	0.6%	0.06%
<b>Total non-performing corporate loans ...</b>	<b>1,873.9</b>	<b>100.0%</b>	<b>2.63%</b>	<b>2,116.1</b>	<b>100.0%</b>	<b>2.13%</b>	<b>1,917.4</b>	<b>100.0%</b>	<b>1.78%</b>

*Notes:*

- (1) Calculated by dividing non-performing loans in each industry by gross loans to customers in that industry.
- (2) Consists primarily of following: (i) water, environment and public facility management, (ii) residential community services and other services, (iii) mining, (iv) electricity, gas and water production and supply, (v) information transmission, software and information technology services, (vi) finance, (vii) scientific research technical services and geological exploration, (viii) health, social security and social welfare, (ix) culture, sports and entertainment and (x) public administration and social organizations.

Our non-performing corporate loans consisted primarily of non-performing loans to corporate borrowers in the manufacturing industry and the wholesale and retail industry.

As of December 31, 2014, 2015 and 2016, non-performing corporate loans to borrowers in the manufacturing industry accounted for 57.7%, 53.8% and 50.5% of our total non-performing corporate loans, respectively. The non-performing loan ratio for our corporate loans in the manufacturing industry was 3.95%, 3.32% and 2.94% as of December 31, 2014, 2015 and 2016, respectively. Our non-performing loan ratio for our corporate loans to the manufacturing industry decreased from 3.95% in 2014 to 3.32% in 2015, and further decreased to 2.94% in 2016 primarily because (i) we controlled our credit extension to the manufacturing industry according to our credit policy to reduce our risk exposure, and (ii) we strengthened our efforts in recovering non-performing loans in the manufacturing industry.

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As of December 31, 2014, 2015 and 2016, non-performing corporate loans to borrowers in the wholesale and retail industry accounted for 11.7%, 25.2% and 22.3% of our total non-performing corporate loans, respectively. The non-performing loan ratio for our corporate loans in the wholesale and retail industry was 1.53%, 2.62% and 2.06% as of December 31, 2014, 2015 and 2016, respectively. Our non-performing loan ratio for our corporate loans to the wholesale and retail industry increased from 1.53% as of December 31, 2014 to 2.62% as of December 31, 2015 primarily due to an adverse impact from the slowdown of the PRC economy on certain small and micro enterprises in the wholesale and retail industry. Our non-performing loan ratio for our corporate loans to borrowers in the wholesale and retail industry decreased from 2.62% as of December 31, 2015 to 2.06% as of December 31, 2016 primarily because (i) we strengthened our efforts in recovering non-performing loans in the wholesale and retail industry, and (ii) we controlled our credit extension to the wholesale and retail industry according to our credit policy to reduce our risk exposure.

As of December 31, 2014, 2015 and 2016, non-performing corporate loans to borrowers in the real estate industry accounted for 5.2%, 5.3% and 14.2% of our total non-performing corporate loans, respectively. The non-performing loan ratio for our corporate loans in the real estate industry was 1.36%, 1.30% and 2.93% as of December 31, 2014, 2015 and 2016, respectively. Our non-performing loan ratio for our corporate loans to borrowers in the real estate industry increased from 1.30% as of December 31, 2015 to 2.93% as of December 31, 2016 primarily because a real estate developer customer, defaulted on a loan of RMB199.9 million mainly as a result of the lower than expected sales performance of the underlying properties.

### *Distribution of Non-Performing Loans by Geographical Region*

The following table sets forth the distribution of our non-performing loans by geographical region as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>
	(in millions of RMB, except percentages)								
Sanmenxia .....	255.4	12.0%	3.62%	262.8	9.7%	3.13%	606.4	19.8%	6.07%
Xinxiang .....	274.6	12.9%	2.53%	406.2	14.9%	2.96%	475.7	15.5%	4.75%
Zhoukou .....	212.4	9.9%	3.51%	148.5	5.5%	2.00%	362.9	11.9%	4.28%
Shangqiu .....	0.9	—	0.01%	377.8	13.9%	3.40%	359.1	11.7%	2.78%
Hebi .....	185.3	8.7%	3.65%	113.2	4.2%	1.79%	185.1	6.0%	2.64%
Anyang .....	269.2	12.6%	4.30%	211.8	7.8%	2.98%	166.8	5.4%	2.11%
Kaifeng .....	135.1	6.3%	1.08%	103.8	3.8%	0.85%	148.3	4.8%	1.09%
Xinyang .....	213.4	10.0%	2.28%	114.4	4.2%	1.06%	141.8	4.6%	1.26%
Head Office and Zhengzhou .....	43.7	2.0%	1.94%	197.4	7.3%	2.32%	130.2	4.3%	0.77%
Luohe .....	72.4	3.4%	1.29%	70.8	2.6%	1.02%	96.0	3.1%	1.13%
Puyang .....	92.2	4.3%	2.50%	90.7	3.3%	1.87%	95.5	3.1%	1.70%
Xuchang .....	166.0	7.8%	1.55%	128.1	4.7%	1.05%	82.0	2.7%	0.60%
Zhumadian .....	164.2	7.7%	1.48%	380.6	14.0%	2.67%	67.8	2.2%	0.42%
Nanyang .....	14.3	0.7%	0.17%	22.7	0.8%	0.23%	60.8	2.0%	0.53%
Pingdingshan .....	—	—	—	10.0	0.4%	0.69%	10.3	0.3%	0.30%
Jiaozuo .....	—	—	—	—	—	—	—	—	—
Jiyuan .....	—	—	—	—	—	—	—	—	—
Luoyang .....	—	—	—	—	—	—	—	—	—
Village and Township Banks .....	36.1	1.7%	1.29%	80.4	2.9%	1.96%	73.4	2.6%	1.48%
<b>Total non-performing loans .....</b>	<b>2,135.2</b>	<b>100.0%</b>	<b>1.92%</b>	<b>2,719.2</b>	<b>100.0%</b>	<b>1.95%</b>	<b>3,062.1</b>	<b>100.0%</b>	<b>1.86%</b>

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*Note:*

(1) Calculated by dividing non-performing loans in each region by gross loans to customers in that region.

As of December 31, 2014, 2015 and 2016, the balances of non-performing loans and the non-performing loan ratios of Sanmenxia and Xinxiang were relatively high primarily because (i) a real estate developer customer in Sanmenxia defaulted on a loan of RMB199.9 million mainly as a result of the lower than expected sales performance of the underlying properties, and (ii) the customers in Xinxiang were mostly small enterprises and individual businesses in the manufacturing or wholesale and retail industries, and therefore were vulnerable to the economic slowdown. For the distribution of loans to customers by geographical region, please see “—Loans and advances to Customers—Distribution of Loans to Customers by Geographical Region”.

### *Distribution of Non-Performing Loans by Collateral*

The following table sets forth the distribution of our non-performing loans by types of collateral as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>
	(in millions of RMB, except percentages)								
Unsecured loans.....	18.0	0.8%	0.76%	13.9	0.5%	0.34%	55.6	1.8%	0.83%
Guaranteed loans .....	1,515.3	71.0%	3.04%	1,707.7	62.8%	2.65%	1,574.9	51.4%	2.28%
Collateralized loans .....	576.1	27.0%	1.52%	954.5	35.1%	2.00%	1,357.9	44.4%	2.12%
Pledged loans .....	25.8	1.2%	0.12%	43.1	1.6%	0.18%	73.7	2.4%	0.29%
<b>Total non-performing loans .....</b>	<b><u>2,135.2</u></b>	<b><u>100.0%</u></b>	<b><u>1.92%</u></b>	<b><u>2,719.2</u></b>	<b><u>100.0%</u></b>	<b><u>1.95%</u></b>	<b><u>3,062.1</u></b>	<b><u>100.0%</u></b>	<b><u>1.86%</u></b>

*Note:*

(1) Calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

Our unsecured non-performing loans decreased by 22.8% from RMB18.0 million as of December 31, 2014 (representing a non-performing loan ratio of 0.76%) to RMB13.9 million as of December 31, 2015 (representing a non-performing loan ratio of 0.34%) primarily due to our adoption of stricter approval requirements for unsecured loans. Our unsecured non-performing loans increased significantly from RMB13.9 million as of December 31, 2015 (representing a non-performing loan ratio of 0.34%) to RMB55.6 million as of December 31, 2016 (representing a non-performing loan ratio of 0.83%) primarily because certain corporate borrowers were adversely impacted by the economic slowdown in the PRC.

The non-performing loan ratio for our guaranteed loans decreased from 3.04% as of December 31, 2014 to 2.65% as of December 31, 2015, and further decreased to 2.28% as of December 31, 2016, primarily due to (i) our continued efforts to recover non-performing guaranteed loans and (ii) our enhanced risk management measures for guaranteed loans, such as the stricter credit approval requirements for guaranteed loans. The non-performing loan ratio for our guaranteed loans was relatively high primarily because the loans secured by guarantees usually have relatively higher credit risks than collateralized loans and pledged loans.

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Our collateralized non-performing loans increased by 65.7% from RMB576.1 million as of December 31, 2014 (representing a non-performing loan ratio of 1.52%) to RMB954.5 million as of December 31, 2015 (representing a non-performing loan ratio of 2.00%), and further increased by 42.3% to RMB1,357.9 million as of December 31, 2016 (representing a non-performing loan ratio of 2.12%), primarily due to increases in non-performing collateralized personal business loans, which were as a result of the sluggish market and the economic slowdown in the PRC.

Our pledged non-performing loans increased by 67.1% from RMB25.8 million as of December 31, 2014 (representing a non-performing loan ratio of 0.12%) to RMB43.1 million as of December 31, 2015 (representing a non-performing loan ratio of 0.18%), and further increased by 71.0% to RMB73.7 million as of December 31, 2016 (representing a non-performing loan ratio of 0.29%), primarily because certain trading companies were adversely affected by the PRC economic slowdown.

### *Ten Largest Non-performing Borrowers*

The following table sets forth our borrowers with the ten largest non-performing loan balances outstanding as of the date indicated.

As of December 31, 2016					
Industry	Outstanding principal amount	Classification	% of total non-performing loans	% of total regulatory capital <sup>(1)</sup>	
(in millions of RMB, except percentages)					
Borrower A .....	Real estate	199.9	Doubtful	6.5%	0.6%
Borrower B .....	Manufacturing	90.0	Doubtful	2.9%	0.2%
Borrower C .....	Wholesale and retail	55.0	Loss	1.8%	0.1%
Borrower D .....	Wholesale and retail	46.1	Doubtful	1.5%	0.1%
Borrower E .....	Accommodation and catering	42.7	Doubtful	1.4%	0.1%
Borrower F .....	Wholesale and retail	38.6	Doubtful	1.3%	0.1%
Borrower G .....	Manufacturing	30.0	Doubtful	1.0%	0.1%
Borrower H .....	Leasing and business services	29.5	Substandard	1.0%	0.1%
Borrower I .....	Manufacturing	29.0	Loss	1.0%	0.1%
Borrower J .....	Manufacturing	28.7	Doubtful	0.9%	0.1%
<b>Total .....</b>		<b>589.5</b>		<b>19.3%</b>	<b>1.6%</b>

*Note:*

- (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 December 31, 2016, see “Financial Information — Capital Resources — Capital Adequacy.”

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### *Loan Aging Schedule*

The following table sets forth our loan aging schedule as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Current loans .....	105,584.8	95.0%	125,028.8	89.6%	156,760.8	95.1%
Loans past due for						
- Up to 3 months <sup>(1)</sup> .....	2,636.0	2.4%	7,377.8	5.2%	4,020.0	2.4%
- Over 3 months up to 1 year <sup>(1)</sup> ..	1,620.2	1.5%	4,963.8	3.6%	1,704.9	1.0%
- Over 1 year up to 3 years <sup>(1)</sup> .....	1,018.1	0.9%	2,032.3	1.5%	2,313.0	1.4%
- Over 3 years <sup>(1)</sup> .....	273.7	0.2%	196.8	0.1%	89.8	0.1%
Sub-total .....	5,548.0	5.0%	14,570.7	10.4%	8,127.7	4.9%
<b>Total loans to customers .....</b>	<b>111,132.8</b>	<b>100.0%</b>	<b>139,599.5</b>	<b>100.0%</b>	<b>164,888.5</b>	<b>100.0%</b>

*Note:*

(1) Represents the principal amount of the loans on which principal or interest was overdue as of the dates indicated.

### **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. Please see “Financial Information — Critical Accounting Judgments and Key Sources of Estimation Uncertainty — Provision for Impairment on Loans and Advances to Customers” and Note 2 to our historical financial information included in the Accountants’ Reports in Appendices IA and IB to this prospectus.

Our loans are reported net of allowance for impairment losses on our consolidated statement of financial position. We first assess whether objective evidence of impairment exists individually for our loans that are individually significant, and individually or collectively for our loans that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed loans, whether significant or not, such loans are included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans 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 of impairment.

An impairment loss is recognized in profit or loss when there is objective evidence that loans are impaired, and is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans’ original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral/pledges.

For further discussion on impairment losses of our loans, please see “Impairment Losses/(Reversal) on Assets” and Note 2 to our historical financial information included in the Accountants’ Reports in Appendix IA and IB attached to this prospectus.

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### *Distribution of Allowance for Impairment Losses by Loan Classification*

The following table sets forth the allocation of our allowance for impairment losses by loan classification category as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	Allowance to loans <sup>(1)</sup>	Amount	% of total	Allowance to loans <sup>(1)</sup>	Amount	% of total	Allowance to loans <sup>(1)</sup>
(in millions of RMB, except percentages)									
Normal .....	2,302.5	49.3%	2.26%	1,883.3	32.9%	1.58%	2,862.1	45.1%	1.86%
Special mention .....	1,097.4	23.4%	15.55%	1,997.0	34.9%	11.32%	1,244.5	19.7%	15.73%
Substandard .....	545.3	11.6%	44.42%	555.8	9.7%	44.47%	386.0	6.1%	45.07%
Doubtful .....	562.3	12.0%	76.82%	548.8	9.6%	75.08%	1,231.6	19.4%	77.53%
Loss .....	175.5	3.7%	100.00%	738.5	12.9%	100.00%	617.0	9.7%	100.00%
<b>Total allowance .....</b>	<b>4,683.0</b>	<b>100.0%</b>	<b>4.21%</b>	<b>5,723.4</b>	<b>100.0%</b>	<b>4.10%</b>	<b>6,341.2</b>	<b>100.0%</b>	<b>3.85%</b>

Note:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the gross loans in that category.

The following table sets forth the allocation of our allowance for impairment losses by business line and by loan classification category as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	Allowance to loans <sup>(1)</sup>	Amount	% of total	Allowance to loans <sup>(1)</sup>	Amount	% of total	Allowance to loans <sup>(1)</sup>
(in millions of RMB, except percentages)									
<b>Corporate loans</b>									
Normal .....	1,361.5	29.2%	2.17%	1,217.2	21.3%	1.50%	1,990.5	31.3%	1.96%
Special mention .....	1,058.8	22.6%	16.07%	1,748.1	30.5%	11.08%	1,020.0	16.1%	14.70%
Substandard .....	484.3	10.3%	44.28%	418.8	7.3%	44.22%	255.6	4.0%	44.93%
Doubtful .....	472.7	10.1%	76.28%	434.2	7.6%	74.14%	829.2	13.1%	76.30%
Loss .....	160.5	3.4%	100.00%	583.4	10.2%	100.00%	315.8	5.0%	100.00%
<b>Subtotal .....</b>	<b>3,537.8</b>	<b>75.6%</b>	<b>4.91%</b>	<b>4,401.7</b>	<b>76.9%</b>	<b>4.43%</b>	<b>4,411.1</b>	<b>69.5%</b>	<b>3.99%</b>
<b>Discounted bills</b>									
Normal .....	333.4	7.1%	2.15%	168.4	2.9%	1.50%	176.8	2.8%	1.94%
Special mention .....	8.9	0.2%	16.72%	56.5	1.0%	10.99%	61.1	1.0%	12.14%
Substandard .....	—	—	—	—	—	—	—	—	—
Doubtful .....	—	—	—	—	—	—	—	—	—
Loss .....	—	—	—	—	—	—	—	—	—
<b>Subtotal .....</b>	<b>342.3</b>	<b>7.3%</b>	<b>2.20%</b>	<b>224.9</b>	<b>3.9%</b>	<b>1.90%</b>	<b>237.9</b>	<b>3.8%</b>	<b>2.48%</b>
<b>Personal loans</b>									
Normal .....	607.6	13.0%	2.58%	497.7	8.7%	1.88%	694.8	11.0%	1.61%
Special mention .....	29.7	0.6%	7.17%	192.4	3.4%	14.40%	163.4	2.6%	34.71%
Substandard .....	61.0	1.3%	45.57%	137.0	2.4%	45.28%	130.4	2.1%	45.34%
Doubtful .....	89.6	1.9%	79.78%	114.6	2.0%	78.86%	402.4	6.3%	80.18%
Loss .....	15.0	0.3%	100.00%	155.1	2.7%	100.00%	301.2	4.7%	100.00%
<b>Subtotal .....</b>	<b>802.9</b>	<b>17.1%</b>	<b>3.32%</b>	<b>1,096.8</b>	<b>19.2%</b>	<b>3.87%</b>	<b>1,692.2</b>	<b>26.7%</b>	<b>3.79%</b>
<b>Total allowance .....</b>	<b>4,683.0</b>	<b>100.0%</b>	<b>4.21%</b>	<b>5,723.4</b>	<b>100.0%</b>	<b>4.10%</b>	<b>6,341.2</b>	<b>100.0%</b>	<b>3.85%</b>

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## ASSETS AND LIABILITIES

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Note:

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the gross loans in that category.

### *Changes to Allowance for Impairment Losses*

We report net provisions for impairment losses on loans to customers on our statement of profit or loss and other comprehensive income. Please see “Financial Information — Results of Operation for the Years Ended December 31, 2014, 2015 and 2016 — Provision for Impairment on Loans and Advances to Customers”.

The following table sets forth the changes to the allowance for impairment losses on loans to customers for the periods indicated.

	<b>Amount</b>
	<b>(in millions of RMB)</b>
<b>As of January 1, 2014</b> .....	<b>3,609.3</b>
Charge for the period <sup>(1)</sup> .....	1,541.3
Recoveries.....	11.6
Write-offs.....	(189.7)
Transfer out.....	(16.0)
Unwinding of discount.....	(42.1)
<b>As of December 22, 2014</b> .....	<b>4,914.4</b>
Release for the period <sup>(1)</sup> .....	(122.0)
Unwinding of discount.....	(1.7)
Recoveries.....	—
Write-offs.....	(107.7)
<b>As of December 31, 2014</b> .....	<b>4,683.0</b>
Increase of consolidated subsidiaries.....	14.8
Charge for the year <sup>(1)</sup> .....	1,637.1
Transfer out.....	(190.8)
Recoveries.....	5.8
Write-offs.....	(320.8)
Unwinding of discount.....	(105.7)
<b>As of December 31, 2015</b> .....	<b>5,723.4</b>
Charge for the year <sup>(1)</sup> .....	1,994.6
Transfer out.....	(716.5)
Recoveries.....	236.5
Write-offs.....	(813.1)
Unwinding of discount.....	(83.7)
<b>As of December 31, 2016</b> .....	<b>6,341.2</b>

Note:

(1) Represents the net amount of allowance for impairment losses recognized in the combined statement of profit or loss and other comprehensive income.

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Our allowance for impairment losses on loans to customers increased by 22.2% from RMB4,683.0 million as of December 31, 2014 to RMB5,723.4 million as of December 31, 2015 and further increased by 10.8% to RMB6,341.2 million as of December 31, 2016 primarily generally in line with the growth of our loans and advances to customers.

### *Distribution of Allowance for Impairment Losses by Product Type*

The following table sets forth the distribution of our allowance for impairment losses on loans to customers by product type as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	Allowance to NPLs(%) <sup>(4)</sup>	Amount	% of total	Allowance to NPLs(%) <sup>(4)</sup>	Amount	% of total	Allowance to NPLs(%) <sup>(4)</sup>
(in millions of RMB, except percentages)									
<b>Corporate loans</b>									
Short-term loans and advances <sup>(1)</sup> .....	2,890.5	61.8%	194.55%	3,695.9	64.6%	211.00%	3,707.1	58.5%	206.94%
Medium- to long-term loans <sup>(2)</sup> .....	647.3	13.8%	166.74%	705.8	12.3%	193.64%	704.0	11.0%	391.11%
Subtotal .....	<u>3,537.8</u>	<u>75.6%</u>	<u>188.79%</u>	<u>4,401.7</u>	<u>76.9%</u>	<u>208.01%</u>	<u>4,411.1</u>	<u>69.5%</u>	<u>223.75%</u>
<b>Personal loans</b>									
Personal business loans ..	522.3	11.1%	290.33%	796.3	14.0%	152.87%	1,118.5	17.6%	123.32%
Residential mortgage loans .....	113.0	2.4%	837.04%	138.7	2.4%	1,401.01%	326.7	5.2%	1,384.32%
Personal consumption loans .....	162.3	3.5%	240.09%	155.3	2.7%	222.17%	240.9	3.8%	153.05%
Others <sup>(3)</sup> .....	5.3	0.1%	1,766.67%	6.5	0.1%	270.83%	6.1	0.1%	255.93%
Subtotal .....	<u>802.9</u>	<u>17.1%</u>	<u>307.27%</u>	<u>1,096.8</u>	<u>19.2%</u>	<u>181.86%</u>	<u>1,692.2</u>	<u>26.7%</u>	<u>155.15%</u>
<b>Discounted bills</b>									
Bank acceptance bills ....	336.6	7.2%	—	219.4	3.8%	—	234.0	3.7%	—
Commercial acceptance bills .....	5.7	0.1%	—	5.5	0.1%	—	3.9	0.1%	—
Subtotal .....	<u>342.3</u>	<u>7.3%</u>	<u>—</u>	<u>224.9</u>	<u>3.9%</u>	<u>—</u>	<u>237.9</u>	<u>3.8%</u>	<u>—</u>
<b>Total allowance .....</b>	<b><u>4,683.0</u></b>	<b><u>100.00%</u></b>	<b><u>219.32%</u></b>	<b><u>5,723.4</u></b>	<b><u>100.00%</u></b>	<b><u>210.48%</u></b>	<b><u>6,341.2</u></b>	<b><u>100.0%</u></b>	<b><u>207.09%</u></b>

#### Notes:

- (1) Consist of loans with maturity of one year or less and advances.
- (2) Consist of loans with maturity of more than one year.
- (3) Consist primarily of corporate credit cards.
- (4) Calculated by dividing allowance for impairment losses on loans to customers in each product type by non-performing loans to customers in that in product type.



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### *Distribution of Allowance for Impairment Losses on Corporate Loans by Industry*

The following table sets forth the allowance for impairment losses on corporate loans by industry as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	Allowance to NPLs <sup>(1)</sup>	Amount	% of total	Allowance to NPLs <sup>(1)</sup>	Amount	% of total	Allowance to NPLs <sup>(1)</sup>
	(in millions of RMB, except percentages)								
Manufacturing.....	1,744.3	49.3%	161.27%	2,178.9	49.5%	191.25%	1,771.8	40.2%	177.93%
Wholesale and retail.....	566.1	16.0%	258.26%	950.9	21.6%	178.44%	923.0	20.9%	209.53%
Real estate .....	281.2	7.9%	289.60%	286.8	6.5%	254.26%	456.1	10.3%	162.49%
Construction.....	182.3	5.2%	200.11%	241.9	5.5%	285.60%	241.9	5.5%	488.69%
Agriculture, forestry, animal husbandry and fishery .....	125.5	3.5%	240.88%	193.6	4.4%	223.30%	196.3	4.5%	721.69%
Accommodation and catering .....	72.4	2.0%	128.60%	81.1	1.8%	173.66%	154.7	3.5%	185.49%
Leasing and business services .....	114.9	3.2%	234.01%	77.5	1.8%	259.20%	118.9	2.7%	398.99%
Transportation, storage and postal services ...	56.0	1.6%	224.00%	86.2	2.0%	184.19%	115.2	2.6%	328.21%
Water, environment and public facilities management .....	57.2	1.6%	4,400.00%	54.6	1.2%	N/A	113.5	2.6%	1,891.67%
Mining .....	27.3	0.8%	119.74%	68.1	1.5%	454.00%	81.3	1.8%	6,253.85%
Education.....	67.4	1.9%	269.60%	46.8	1.1%	N/A	69.0	1.6%	345.00%
Electricity, gas and water production and supply .....	101.7	2.9%	100.30%	64.4	1.5%	397.53%	63.3	1.4%	N/A
Health, social security and social welfare ....	52.7	1.5%	N/A	29.7	0.7%	N/A	46.7	1.1%	N/A
Others <sup>(2)</sup> .....	88.8	2.6%	171.10%	41.2	0.9%	807.84%	59.4	1.3%	2,828.57%
<b>Total allowance for corporate loans .....</b>	<b>3,537.8</b>	<b>100.0%</b>	<b>188.79%</b>	<b>4,401.7</b>	<b>100.0%</b>	<b>208.01%</b>	<b>4,411.1</b>	<b>100.0%</b>	<b>223.75%</b>

*Notes:*

- (1) Calculated by dividing allowance for impairment losses on loans to corporate banking customers in each industry by non-performing loans to corporate banking customers in that industry.
- (2) Consists primarily of following: (i) public administration and social organizations, (ii) culture, sports and entertainment, (iii) residential community services and other services, (iv) finance, (v) information transmission, software and information technology services and (vi) scientific research technical services and geological exploration.

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### *Distribution of Allowance for Impairment Losses by Geographic Region*

The following table sets forth the allocation of our allowance for impairment losses by geographical region as of the dates indicated.

	As of December 31,								
	2014			2015			2016		
	Amount	% of total	Allowance to NPLs (%) <sup>(1)</sup>	Amount	% of total	Allowance to NPLs (%) <sup>(1)</sup>	Amount	% of total	Allowance to NPLs (%) <sup>(1)</sup>
(in millions of RMB, except percentages)									
Sanmenxia .....	368.0	7.9%	144.09%	440.4	7.7%	167.58%	771.6	12.2%	127.24%
Zhumadian .....	469.3	10.0%	285.75%	652.7	11.4%	171.52%	620.2	9.8%	914.60%
Xinxiang .....	703.8	15.0%	256.21%	981.4	17.1%	241.55%	604.9	9.5%	127.19%
Zhoukou .....	371.1	7.9%	174.72%	376.9	6.6%	253.80%	463.8	7.3%	127.80%
Shangqiu .....	231.8	4.9%	25,755.56%	478.7	8.4%	126.71%	454.7	7.2%	126.62%
Head Office and									
Zhengzhou .....	115.6	2.5%	264.53%	438.9	7.7%	222.34%	420.8	6.6%	322.95%
Xuchang .....	381.4	8.1%	229.76%	338.1	5.9%	263.93%	412.4	6.5%	502.93%
Kaifeng .....	393.1	8.4%	290.97%	307.1	5.4%	295.86%	401.8	6.3%	270.94%
Xinyang .....	377.5	8.1%	176.90%	287.8	5.0%	251.57%	319.0	5.0%	224.96%
Anyang .....	276.7	5.9%	102.79%	305.2	5.3%	144.10%	305.5	4.8%	183.15%
Nanyang .....	207.1	4.4%	1,448.25%	227.4	4.0%	1,001.76%	302.4	4.8%	497.37%
Hebi .....	300.1	6.4%	161.95%	232.3	4.1%	205.21%	270.1	4.3%	145.92%
Luohe .....	184.9	3.9%	255.39%	198.5	3.5%	280.37%	266.6	4.2%	277.71%
Puyang .....	147.9	3.2%	160.41%	148.4	2.6%	163.62%	202.1	3.2%	211.62%
Pingdingshan .....	5.5	0.1%	N/A	29.8	0.5%	298.00%	75.1	1.2%	729.13%
Jiyuan .....	—	—	—	—	—	—	19.5	0.3%	N/A
Jiaozuo .....	—	—	—	1.5	—	N/A	18.4	0.3%	N/A
Luoyang .....	—	—	—	—	—	—	14.7	0.2%	N/A
Village and									
Township Banks..	149.2	3.3%	413.30%	278.3	4.8%	346.14%	397.6	6.3%	541.69%
<b>Total allowance for loans.....</b>	<b>4,683.0</b>	<b>100.0%</b>	<b>219.32%</b>	<b>5,723.4</b>	<b>100.0%</b>	<b>210.48%</b>	<b>6,341.2</b>	<b>100.0%</b>	<b>207.09%</b>

Note:

- (1) Calculated by dividing allowance for impairment losses on loans in each region by non-performing loans originated in that region.

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### *Distribution of Allowance for Impairment Losses by Assessment Methodology*

The following table sets forth the distribution of the allowance for impairment losses for our loans and advances to customers by our assessment methodology as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	Allowance to loans <sup>(1)</sup>	Amount	Allowance to loans <sup>(1)</sup>	Amount	Allowance to loans <sup>(1)</sup>
	(in millions of RMB, except percentages)					
Collectively assessed .....	3,565.5	3.26%	4,287.0	3.12%	4,940.6	3.03%
Individually assessed .....	1,117.5	59.63%	1,436.4	67.88%	1,400.6	71.05%
<b>Total allowance.....</b>	<b><u>4,683.0</u></b>	<b><u>4.21%</u></b>	<b><u>5,723.4</u></b>	<b><u>4.10%</u></b>	<b><u>6,341.2</u></b>	<b><u>3.85%</u></b>

*Note:*

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

### **Investment Securities and Other Financial Assets**

Investment securities and other financial assets are another important component of our assets, representing 17.7%, 29.0% and 42.3% of our total assets as of December 31, 2014, 2015 and 2016, respectively.

Our investment securities and other financial assets consist primarily of debt securities, wealth management products issued by other PRC commercial banks, trust plans, assets management plans and others. The following table sets forth the components of our investment securities and other financial assets as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities .....	<u>15,932.8</u>	<u>43.5%</u>	<u>35,322.3</u>	<u>39.8%</u>	<u>73,840.1</u>	<u>40.4%</u>
Other financial assets						
Wealth management products issued by other PRC						
commercial banks .....	1,720.1	4.7%	18,719.2	21.1%	34,287.7	18.7%
Asset management plans .....	2,715.2	7.4%	13,787.8	15.6%	35,230.1	19.3%
Trust plans.....	14,467.5	39.5%	20,871.6	23.5%	27,494.5	15.0%
Others <sup>(1)</sup> .....	1,777.1	4.9%	23.9	—	12,143.6	6.6%
Sub-total.....	<u>20,679.9</u>	<u>56.5%</u>	<u>53,402.5</u>	<u>60.2%</u>	<u>109,155.9</u>	<u>59.6%</u>
<b>Total investment securities and other financial assets, net .....</b>	<b><u>36,612.7</u></b>	<b><u>100.0%</u></b>	<b><u>88,724.8</u></b>	<b><u>100.0%</u></b>	<b><u>182,996.0</u></b>	<b><u>100.0%</u></b>

*Note:*

- (1) Consist primarily of investment entrusted to third-party financial institutions and investment funds.

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Our total investment securities and other financial assets increased significantly from RMB36,612.7 million as of December 31, 2014 to RMB88,724.8 million as of December 31, 2015, and further increased significantly to RMB182,996.0 million as of December 31, 2016, primarily because we (i) developed our financial markets businesses after the Reorganization and (ii) continued to optimize our investment portfolio by increasing our investments in Non-standard Credit Assets in addition to our increased investments in debt securities.

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 accounted for 43.5%, 39.8% and 40.4% of our investment securities and other financial asset portfolio as of December 31, 2014, 2015 and 2016, 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, 2014, 2015 and 2016 were denominated in Renminbi. The following table sets forth the components of our debt securities as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
PRC government bonds.....	1,662.9	10.4%	4,630.0	13.1%	19,886.3	26.9%
Debt securities issued by PRC policy banks and other financial institutions.....	11,356.8	71.3%	19,503.3	55.2%	45,018.4	61.0%
Debt securities issued by PRC corporate issuers.....	2,913.1	18.3%	11,189.0	31.7%	8,935.4	12.1%
<b>Total debt securities.....</b>	<b><u>15,932.8</u></b>	<b><u>100.0%</u></b>	<b><u>35,322.3</u></b>	<b><u>100.0%</u></b>	<b><u>73,840.1</u></b>	<b><u>100.0%</u></b>

Debt securities increased significantly from RMB15,932.8 million as of December 31, 2014 to RMB35,322.3 million as of December 31, 2015, and further increased significantly to RMB73,840.1 million as of December 31, 2016, primarily due to increases in our holding in PRC government bonds, debt securities issued by PRC banks and other financial institutions and debt securities issued by PRC corporate issuers, which were primarily due to our efforts to optimize our investment portfolio to achieve higher liquidity.

During the Track Record Period, debt securities issued by PRC policy banks and other financial institutions were the largest component of our debt securities portfolio, accounting for 71.3%, 55.2% and 61.0% of our total debt securities portfolio as of December 31, 2014, 2015 and 2016, respectively. Our holding in debt securities issued by PRC policy banks and other financial institutions increased by 71.7% from RMB11,356.8 million as of December 31, 2014 to RMB19,503.3 million as of December 31, 2015, and further increased significantly to RMB45,018.4 million as of December 31, 2016, primarily due to our increased investment in such debt securities with high liquidity to reduce liquidity risk.

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Our holding of PRC government bonds increased significantly from RMB1,662.9 million as of December 31, 2014 to RMB4,630.0 million as of December 31, 2015, and further increased significantly to RMB19,886.3 million as of December 31, 2016, primarily due to our increased investment in PRC government bonds with high liquidity and relative low risk to maintain our liquidity.

Our holding of debt securities issued by PRC corporate issuers increased significantly from RMB2,913.1 million as of December 31, 2014 to RMB11,189.0 million as of December 31, 2015 primarily due to our preference to seek higher return on investments while maintaining a reasonable level of liquidity. Our holding of debt securities issued by PRC corporate issuers decreased by 20.1% to RMB8,935.4 million as of December 31, 2016 primarily because we reduced high risk corporate debt investments to reduce our credit risk exposure.

The following table sets forth the balance of our debt securities portfolio by remaining maturity as of the date indicated.

As of December 31, 2016						
Overdue	Due within 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)						
PRC Government bonds .....	—	100.0	—	6,124.2	13,662.1	19,886.3
Bonds issued by PRC policy banks and other financial institutions....	—	17,588.9	8,498.3	12,758.3	6,172.9	45,018.4
Debt securities issued by PRC corporate issuers .....	—	1,169.0	2,818.0	4,775.6	172.8	8,935.4
<b>Total debt securities .....</b>	<b>—</b>	<b>18,857.9</b>	<b>11,316.3</b>	<b>23,658.1</b>	<b>20,007.8</b>	<b>73,840.1</b>

The following table sets forth a breakdown of our debt securities between fixed interest rates and floating interest rates as of the dates indicated.

As of December 31,						
2014		2015		2016		
Amount	% of total	Amount	% of total	Amount	% of total	
(in millions of RMB, except percentages)						
Fixed interest rates .....	15,246.9	95.7%	34,676.1	98.2%	73,372.6	99.4%
Floating interest rates .....	685.9	4.3%	646.2	1.8%	467.5	0.6%
<b>Total debt securities .....</b>	<b>15,932.8</b>	<b>100.0%</b>	<b>35,322.3</b>	<b>100.0%</b>	<b>73,840.1</b>	<b>100.0%</b>

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### *Wealth Management Products Issued by Other PRC Commercial Banks*

Our holding of wealth management products issued by other PRC commercial banks increased significantly from RMB1,720.1 million as of December 31, 2014 to RMB18,719.2 million as of December 31, 2015, and further increased by 83.2% to RMB34,287.7 million as of December 31, 2016, primarily because we established and significantly expanded our interbank businesses after the Reorganization.

The following table sets forth a breakdown of our balance of the wealth management products issued by other PRC commercial banks in which we invested by category as of the dates indicated.

	As of December 31,		
	2014	2015	2016
	Amount	Amount	Amount
	(in millions of RMB)		
Principal protected .....	151.5	1,873.6	—
Non-principal protected .....	<u>1,568.6</u>	<u>16,845.6</u>	<u>34,287.7</u>
<b>Total balance</b> .....	<b><u>1,720.1</u></b>	<b><u>18,719.2</u></b>	<b><u>34,287.7</u></b>

Our holding of principal protected wealth management products increased significantly from RMB151.5 million as of December 31, 2014 to RMB1,873.6 million as of December 31, 2015 primarily to generate stable returns. Our holding of principal protected wealth management products decreased to nil as of December 31, 2016 primarily because we allocated our funds to investments in other assets with higher returns in 2016.

Our holding of non-principal protected wealth management products increased significantly from RMB1,568.6 million as of December 31, 2014 to RMB16,845.6 million as of December 31, 2015, and further increased significantly to RMB34,287.7 million as of December 31, 2016, primarily because we increased investments in non-principal protected wealth management products issued by reputable PRC banks to generate higher returns while maintaining strict risk controls.

For more information, please see “Business — Our Principal Business Activities — Financial Markets Business — Overview — Non-standard Credit Assets”.

### *Asset Management Plans*

Asset management plans consist primarily of credit assets, bank bills, bonds and assets backed securities. Our holding of asset management plans increased significantly from RMB2,715.2 million as of December 31, 2014 to RMB13,787.8 million as of December 31, 2015, and further increased significantly to RMB35,230.1 million as of December 31, 2016, which was primarily because we intended to achieve higher yield while maintaining strict risk controls. For more information, please see “Business — Our Principal Business Activities — Financial Markets Business — Overview — Non-standard Credit Assets — Asset Management Plans”.

## ASSETS AND LIABILITIES

### *Trust Plans*

Trust plans are financial instruments sponsored by trust companies. Our holding of trust plans increased by 44.3% from RMB14,467.5 million as of December 31, 2014 to RMB20,871.6 million as of December 31, 2015, and further increased by 31.7% to RMB27,494.5 million as of December 31, 2016, primarily because we increased our investments in certain trust plans with relatively high returns while maintaining strict risk controls. For more information, please see “Business — Our Principal Business Activities — Financial Markets Business — Overview — Non-standard Credit Assets — Trust Plans”.

For details relating to our risk management relating to our investment in Non-standard Credit Assets, please see “Risk Management — Credit Risk Management — Credit Risk Management for Our Financial Markets Business — Credit Risk Management for Investments in Debt Securities and Non-standard Credit Assets”.

### *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) debt securities 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. Debt securities 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 debt securities classified as receivables.

The following table sets forth the distribution of our investment securities and other financial assets by our investment intention as of the dates indicated. For further details on the components of each category of our investment securities and other financial assets, see Notes 21 and 22 to our historical financial information included in the Accountants’ Reports in Appendices IA and IB to this prospectus.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Financial assets at fair value						
through profit or loss.....	2,895.1	7.9%	17,144.2	19.3%	4,207.1	2.3%
Available-for-sale financial assets ...	5,609.9	15.3%	24,963.4	28.1%	102,258.8	55.9%
Held-to-maturity investments .....	11,315.2	30.9%	12,735.5	14.4%	17,851.8	9.7%
Debt securities classified as						
receivables.....	16,792.5	45.9%	33,881.7	38.2%	58,678.3	32.1%
<b>Total.....</b>	<b><u>36,612.7</u></b>	<b><u>100.0%</u></b>	<b><u>88,724.8</u></b>	<b><u>100.0%</u></b>	<b><u>182,996.0</u></b>	<b><u>100.0%</u></b>

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## ASSETS AND LIABILITIES

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Our financial assets at fair value through profit or loss consist primarily of PRC government bonds, debt securities issued by PRC banks and other financial institutions and debt securities issued by PRC corporate entities that are classified as financial assets at fair value through profit or loss. Our financial assets at fair value through profit or loss increased significantly from RMB2,895.1 million as of December 31, 2014 to RMB17,144.2 million as of December 31, 2015 primarily because we significantly expanded our financial markets business after the Reorganization and increased our holding in debt securities issued by PRC banks and other financial institutions and debt securities issued by PRC corporate entities, which were of relatively high returns. Our financial assets at fair value through profit or loss decreased by 75.5% to RMB4,207.1 million as of December 31, 2016 primarily because we reduced our allocation of funds to debt securities to manage market risks caused by the tight liquidity in the PRC financial markets in the fourth quarter of 2016.

Our available-for-sale financial assets consist primarily of debt securities, asset management plans, trust plans and wealth management products issued by other PRC commercial banks that are classified as available-for-sale financial assets. Our available-for-sale financial assets increased significantly from RMB5,609.9 million as of December 31, 2014 to RMB24,963.4 million as of December 31, 2015, and further increased significantly to RMB102,258.8 million as of December 31, 2016, which were primarily because we significantly expanded our financial markets business after the Reorganization and increased our holding in assets with relatively high returns, such as the debt securities issued by other banks and Non-standard Credit Assets classified as 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 12.6% from RMB11,315.2 million as of December 31, 2014 to RMB12,735.5 million as of December 31, 2015, and further increased by 40.2% to RMB17,851.8 million as of December 31, 2016, primarily due to our increased holding of debt securities issued by PRC government that are classified as held-to-maturity financial assets to manage our liquidity.

Our debt securities classified as receivables consist of asset management plans, trust plans and wealth management products issued by other PRC commercial banks that are classified as receivables. Our debt securities classified as receivables increased significantly from RMB16,792.5 million as of December 31, 2014 to RMB33,881.7 million as of December 31, 2015, and further increased by 73.2% to RMB58,678.3 million as of December 31, 2016, primarily because we significantly expanded our financial markets business after the Reorganization and increased our holding of asset management plans, trust plans and wealth management products issued by other PRC commercial banks that are classified as receivables to seek higher returns.



## ASSETS AND LIABILITIES

### *Distribution of Investment Securities and Other Financial Assets by Remaining Maturities*

The table below sets forth the distribution of our investment securities and other financial assets by remaining maturities as of the date indicated.

	As of December 31, 2016					Total
	Due in 3 month or less	Due over 3 month up to 1 year	Due over 1 year up to 5 years	Due in more than 5 years	Indefinite	
	(in millions of RMB)					
Held-to-maturity investments .....	629.9	550.2	6,255.4	10,416.3	—	17,851.8
Available-for-sale financial assets ...	41,408.0	29,783.2	22,240.9	8,802.8	23.9	102,258.8
Financial assets at fair value through profit or loss.....	1,219.0	550.1	1,639.3	798.7	—	4,207.1
Debt securities classified as receivables.....	8,898.6	24,168.2	22,969.4	1,322.5	1,319.6	58,678.3
<b>Total.....</b>	<b><u>52,155.5</u></b>	<b><u>55,051.7</u></b>	<b><u>53,105.0</u></b>	<b><u>21,340.3</u></b>	<b><u>1,343.5</u></b>	<b><u>182,996.0</u></b>

### *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 the carrying value and the fair value of the held-to-maturity investments in our investment portfolio as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(in millions of RMB)					
<b>Held-to-maturity investments.....</b>	11,315.2	11,309.8	12,735.5	13,094.4	17,851.8	17,833.3

Debt securities classified as receivables are stated in our financial statements at amortized cost. As of December 31, 2014, 2015 and 2016, the carrying value of our debt securities classified as receivables was substantially the same as their fair value.

## ASSETS AND LIABILITIES

### *Investment Concentration*

The table below sets forth our investment securities and other financial assets whose carrying value exceeded 10% of our total equity as of the date indicated.

Issuer	As of December 31, 2016			
	Carrying value	% of total investment securities and other financial assets	% of total equity	Market/fair value
(in millions of RMB, except percentage)				
A .....	18,026.6	9.9%	50.8%	17,976.8
B .....	11,704.7	6.4%	33.0%	11,704.7
C .....	11,044.5	6.0%	31.1%	11,044.5
D .....	10,865.7	5.9%	30.6%	10,865.7
E .....	9,262.0	5.1%	26.1%	9,317.6
F .....	8,806.9	4.8%	24.8%	8,806.9
G .....	6,994.9	3.8%	19.7%	6,994.9
H .....	5,587.1	3.1%	15.7%	5,586.0
I .....	5,571.0	3.0%	15.7%	5,571.0
J .....	5,472.5	3.0%	15.4%	5,472.5
K .....	5,044.7	2.8%	14.2%	5,044.7
L .....	5,035.0	2.8%	14.2%	5,035.0
M .....	5,015.3	2.7%	14.1%	5,001.1
N .....	4,378.0	2.4%	12.3%	4,378.0
O .....	3,980.0	2.2%	11.2%	3,980.0
P .....	3,803.3	2.1%	10.7%	3,803.3
<b>Total</b> .....	<b><u>120,592.2</u></b>	<b><u>66.0%</u></b>	<b><u>339.6%</u></b>	<b><u>120,582.7</u></b>

### *Financial Assets Held under Resale Agreements*

Our financial assets held under resale agreements consist primarily of discounted bills and debt securities we held under resale agreements with PRC banks and other financial institutions. Our financial assets held under resale agreements increased significantly from RMB8,546.7 million as of December 31, 2014 to RMB24,559.4 million as of December 31, 2015 primarily due to an increase in our holding of discounted bills with higher yields to achieve higher returns. Our financial assets held under resale agreements decreased by 73.2% to RMB6,573.6 million as of December 31, 2016 primarily because we adjusted our assets structure by decreasing our investments in our bills held under resale agreement with relatively low yields.

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## ASSETS AND LIABILITIES

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The table below sets forth the distribution of our financial assets held under resale agreements by remaining maturities collateral type as of the date indicated.

	As of December 31,		
	2014	2015	2016
	(in millions of RMB)		
<b>Analysed by collateral type</b>			
Bills .....	1,096.6	18,086.7	—
Debt securities .....	7,450.1	6,472.7	6,573.6
<b>Total</b> .....	<b>8,546.7</b>	<b>24,559.4</b>	<b>6,573.6</b>

Our holding of bills held under resale agreements increased significantly from RMB1,096.6 million as of December 31, 2014 to RMB18,086.7 million as of December 31, 2015 primarily due to our increased investment in discounted bills to achieve higher returns in 2015. Our holding of bills held under resale agreements decreased to nil as of December 31, 2016 primarily because we suspended our bill discounting transactions due to their high costs and low profitability.

Our holding of debt securities decreased by 13.1% from RMB7,450.1 million as of December 31, 2014 to RMB6,472.7 million as of December 31, 2015 primarily because we optimized our assets structure by allocating more funds to investment in discounted bills in 2015. Our holding of bonds held under resale agreements remained stable at RMB6,573.6 million as of December 31, 2016.

### Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with the central bank, (ii) deposits with banks and other financial institutions, (iii) placements with banks and other financial institutions and (iv) other assets.

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 the PBoC. The minimum level is determined as a percentage of our deposits from customers. For details of changes in statutory deposit reserve ratio, please see the section headed “Supervision and Regulation — Required Deposit Reserve”. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves which we maintain for clearing purposes. As of December 31, 2014, 2015 and 2016, our cash and deposits with the central bank amounted to RMB40,787.5 million, RMB43,270.7 million and RMB49,370.9 million, respectively. The increase in our cash and deposits with central bank was primarily due to an increase in our statutory deposit reserves in line with an increase of our deposits from customers.

Deposits with banks and other financial institutions consist primarily of our balances maintained with other banks and financial institutions in China for settlement and clearance purposes and negotiated deposits with other PRC banks. Our deposits with banks and other financial institutions decreased by 2.2% from RMB5,159.6 million as of December 31, 2014 to RMB5,044.4 million as of December 31, 2015 primarily because we allocated more funds to wealth management products, trust investment plans and asset management plans investments which usually have higher returns than deposits with banks and other financial institutions. Our deposits with banks and other financial institutions increased significantly to RMB12,830.5 million as of December 31, 2016 primarily because we significantly increased our deposits with banks and other financial institutions in the end of 2016 in light of the surge of their investment yield, to adjust our assets portfolio while meeting our liquidity needs.

## ASSETS AND LIABILITIES

We lend funds to banks and other financial institutions through the lending market. As of December 31, 2014 and 2015, our placements with banks and other financial institutions amounted to RMB1.7 million and RMB0.8 million, respectively, representing the legacy balances of the interbank placements of the Thirteen City Commercial Banks. We obtained the qualification to conduct interbank lending in August 2016 and our placements with banks and other financial institutions were RMB8,700.0 million as of December 31, 2016.

Our other assets consist primarily of property and equipment, deferred tax assets, interests in associates, goodwill and other assets. Our other assets increased by 10.9% from RMB9,389.8 million as of December 31, 2014 to RMB10,414.5 million as of December 31, 2015, and further increased by 34.9% to RMB14,053.1 million as of December 31, 2016, primarily due to increases in interest receivable as a result of increases in our investment and loans and advances to customers.

### LIABILITIES AND SOURCES OF FUNDS

Our total liabilities increased by 52.3% from RMB178,936.6 million as of December 31, 2014 to RMB272,472.7 million as of December 31, 2015, and further increased by 45.9% to RMB397,572.8 million as of December 31, 2016, primarily due to increases in our deposits from customers, deposits from banks and other financial institutions and placements from banks and other financial institutions.

The following table sets forth the components of our total liabilities as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Deposits from customers .....	164,595.8	92.0%	205,370.4	75.4%	245,352.8	61.7%
Deposits from banks and other financial institutions .....	5,735.5	3.2%	29,385.8	10.8%	44,954.8	11.3%
Debt securities issued .....	—	—	2,979.0	1.1%	57,387.8	14.4%
Financial assets sold under repurchase agreements .....	2,126.2	1.2%	24,937.6	9.2%	27,580.6	6.9%
Placements from banks and other financial institutions .....	—	—	—	—	10,400.0	2.6%
Borrowings from central bank .....	705.9	0.4%	1,651.8	0.6%	4,517.0	1.1%
Tax payable .....	459.5	0.3%	718.3	0.3%	748.8	0.2%
Other liabilities <sup>(1)</sup> .....	5,313.7	2.9%	7,429.8	2.6%	6,631.0	1.8%
<b>Total liabilities</b> .....	<b><u>178,936.6</u></b>	<b><u>100.0%</u></b>	<b><u>272,472.7</u></b>	<b><u>100.0%</u></b>	<b><u>397,572.8</u></b>	<b><u>100.0%</u></b>

Note:

- (1) Consist primarily of interest payable, payment and collection clearance accounts, accrued staff cost, other tax payable, dividend payable, litigation and disputes provision and other payable.

## ASSETS AND LIABILITIES

### Deposits from Customers

Deposits from customers have historically been our primary source of funding, representing 92.0%, 75.4% and 61.7% of our total liabilities as of December 31, 2014, 2015 and 2016, respectively. We provide demand and time deposit products to corporate and retail banking customers. The following table sets forth our deposits from corporate and retail banking customers by product type as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
<b>Corporate deposits</b>						
Demand .....	53,282.0	32.4%	66,857.0	32.6%	96,176.0	39.2%
Time <sup>(1)</sup> .....	29,618.5	18.0%	47,437.7	23.1%	45,656.9	18.6%
Subtotal .....	<u>82,900.5</u>	<u>50.4%</u>	<u>114,294.7</u>	<u>55.7%</u>	<u>141,832.9</u>	<u>57.8%</u>
<b>Personal deposits</b>						
Demand .....	22,838.1	13.9%	23,101.2	11.2%	32,356.9	13.2%
Time <sup>(1)</sup> .....	58,857.2	35.7%	67,974.5	33.1%	71,163.0	29.0%
Subtotal .....	<u>81,695.3</u>	<u>49.6%</u>	<u>91,075.7</u>	<u>44.3%</u>	<u>103,519.9</u>	<u>42.2%</u>
<b>Total deposits from customers .....</b>	<b><u>164,595.8</u></b>	<b><u>100.0%</u></b>	<b><u>205,370.4</u></b>	<b><u>100.0%</u></b>	<b><u>245,352.8</u></b>	<b><u>100.0%</u></b>

Note:

- (1) Include principal protected wealth management products, which we classify as deposits from customers pursuant to regulatory rules.

Our total deposits from customers increased by 24.8% from RMB164,595.8 million as of December 31, 2014 to RMB205,370.4 million as of December 31, 2015, and further increased by 19.5% to RMB245,352.8 million as of December 31, 2016, primarily due to increases in both corporate and personal deposits, which were primarily due to our continued efforts to develop our deposit business by developing institutional customers and diversifying our retail banking products.

Our corporate deposits increased by 37.9% from RMB82,900.5 million as of December 31, 2014 to RMB114,294.7 million as of December 31, 2015, and further increased by 24.1% to RMB141,832.9 million as of December 31, 2016, primarily due to (i) an increase in our business with strategic corporate banking customers and (ii) the growth of our small and medium corporate client base as a result of continued marketing efforts.

Our personal deposits increased by 11.5% from RMB81,695.3 million as of December 31, 2014 to RMB91,075.7 million as of December 31, 2015, and further increased by 13.7% to RMB103,519.9 million as of December 31, 2016, primarily due to an expansion of our branch and sub-branch network for our retail banking business and a growth in our retail banking customer base.

Our demand deposits increased by 18.2% from RMB76,120.1 million as of December 31, 2014 to RMB89,958.2 million as of December 31, 2015, and further increased by 42.9% to RMB128,532.9 million as of December 31, 2016, which were primarily due to the growth of our transaction banking business.

## ASSETS AND LIABILITIES

Our time deposits increased by 30.4% from RMB88,475.7 million as of December 31, 2014 to RMB115,412.2 million as of December 31, 2015 primarily due to our continued marketing efforts to expand our corporate banking customer base. Our time deposits increased only slightly to RMB116,819.9 million as of December 31, 2016 primarily because we expanded our transaction banking business, the customers of which tended to maintain higher proportion of demand deposits.

Please see the section headed “Risk Factors — If we fail to maintain the growth rate of our deposits from customers or our deposits from customers decrease substantially, our liquidity, financial position and operating results could be materially and adversely affected” in this prospectus.

### *Distribution of Deposits from Customers 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 the distribution of our deposits from customers by geographic region as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Head office and Zhengzhou .....	6,551.4	4.0%	26,789.2	13.0%	44,115.9	18.0%
Shangqiu .....	15,872.7	9.6%	19,823.6	9.7%	23,265.0	9.5%
Zhumadian .....	17,933.4	10.9%	19,679.6	9.6%	22,845.3	9.3%
Xuchang .....	15,866.9	9.6%	17,892.4	8.7%	21,230.4	8.7%
Xinyang .....	13,687.2	8.3%	14,620.8	7.1%	17,071.9	7.0%
Nanyang .....	11,909.8	7.2%	14,397.6	7.0%	15,443.1	6.3%
Xinxiang .....	15,425.1	9.4%	14,189.2	6.9%	13,556.8	5.5%
Kaifeng .....	11,094.9	6.7%	12,313.7	6.0%	12,933.4	5.3%
Zhoukou .....	9,516.5	5.8%	11,348.4	5.5%	12,828.7	5.2%
Anyang .....	9,699.4	5.9%	10,903.7	5.3%	12,175.6	5.0%
Sanmenxia .....	10,041.3	6.1%	11,071.3	5.4%	12,082.4	4.9%
Luohe .....	9,267.0	5.6%	11,586.3	5.6%	11,233.6	4.6%
Puyang .....	6,942.8	4.2%	8,681.6	4.2%	9,192.3	3.7%
Hebi .....	7,639.1	4.6%	7,105.0	3.5%	7,286.6	3.0%
Pingdingshan .....	329.7	0.2%	1,191.6	0.6%	3,112.4	1.3%
Jiyuan .....	—	—	—	—	867.6	0.4%
Jiaozuo .....	—	—	—	—	797.9	0.3%
Luoyang .....	—	—	—	—	99.6	—
Village and Township Banks .....	2,818.6	1.9%	3,776.4	1.9%	5,214.3	2.0%
<b>Total deposits from customers .....</b>	<b>164,595.8</b>	<b>100.0%</b>	<b>205,370.4</b>	<b>100.0%</b>	<b>245,352.8</b>	<b>100.0%</b>

## ASSETS AND LIABILITIES

### *Distribution of Deposits from Customers by Currency*

Substantially all of our deposits are Renminbi-denominated deposits. The following table sets forth the distribution of our amounts due to customers by currency as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB-denominated deposits .....	164,595.8	100.0%	205,370.4	100.0%	245,298.2	100.0%
USD-denominated deposits .....	—	—	—	—	54.5	—
Other foreign currency-denominated deposits .....	—	—	—	—	0.1	—
<b>Total deposits from customers .....</b>	<b>164,595.8</b>	<b>100.0%</b>	<b>205,370.4</b>	<b>100.0%</b>	<b>245,352.8</b>	<b>100.0%</b>

### *Distribution of Deposits from Customers by Remaining Maturity*

A majority of our deposits from customers as of December 31, 2016 were demand deposits. The following table sets forth the distribution of our deposits from customers by remaining maturity as of the date indicated.

	As of December 31, 2016											
	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		Total	% of total deposits
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits		
	(in millions of RMB, except percentages)											
Corporate deposits .....	96,176.0	39.2%	16,508.8	6.7%	20,360.2	8.3%	8,787.9	3.6%	—	—	141,832.9	57.8%
Personal deposits .....	32,356.9	13.2%	23,527.7	9.6%	32,789.4	13.4%	14,825.0	6.0%	20.9	—	103,519.9	42.2%
<b>Total deposits from customers .....</b>	<b>128,532.9</b>	<b>52.4%</b>	<b>40,036.5</b>	<b>16.3%</b>	<b>53,149.6</b>	<b>21.7%</b>	<b>23,612.9</b>	<b>9.6%</b>	<b>20.9</b>	<b>—</b>	<b>245,352.8</b>	<b>100.0%</b>

During the Track Record Period, a majority of our deposits from customers were repayable on demand, representing 52.4% of our total deposits as of December 31, 2016. As of December 31, 2016, our corporate deposits repayable on demand accounted for 67.8% of our total corporate deposits and personal deposits repayable on demand accounted for 31.3% of our total personal deposits.

## ASSETS AND LIABILITIES

### *Distribution of Corporate Deposits by Size*

The following table sets forth the distribution of our corporate deposits, in terms of total balance of deposits from a single corporate banking customer, by size of the deposits as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Less than RMB500,000 .....	3,778.0	4.7%	378.5	0.4%	2,523.9	1.7%
RMB500,000 up to less than RMB1 million.....	1,996.1	2.4%	3,023.6	2.6%	1,795.2	1.3%
RMB1 million up to less than RMB10 million .....	17,168.3	20.7%	13,730.5	12.0%	18,938.2	13.4%
RMB10 million up to less than RMB50 million.....	26,726.3	32.2%	31,416.2	27.5%	43,531.8	30.7%
RMB50 million up to less than RMB100 million .....	10,627.7	12.8%	15,122.6	13.2%	19,108.8	13.5%
RMB100 million up to less than RMB500 million .....	19,169.3	23.1%	38,414.8	33.6%	40,468.8	28.5%
RMB500 million or more .....	3,434.8	4.1%	12,208.5	10.7%	15,466.1	10.9%
<b>Total corporate deposits from customers.....</b>	<b>82,900.5</b>	<b>100.0%</b>	<b>114,294.7</b>	<b>100.0%</b>	<b>141,832.9</b>	<b>100.0%</b>

### *Distribution of Personal Deposits by Size*

The following table sets forth the distribution of our personal deposits, in terms of total balance of deposits from a single retail banking customer, by size of the deposits as of the dates indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Less than RMB100,000 .....	45,762.2	56.1%	23,975.1	26.4%	50,632.1	48.9%
RMB100,000 up to less than RMB300,000.....	15,966.5	19.5%	20,025.6	22.0%	22,085.4	21.3%
RMB300,000 up to less than RMB500,000.....	4,667.4	5.7%	9,945.9	10.9%	6,178.6	6.0%
RMB500,000 up to less than RMB1 million.....	4,435.7	5.4%	10,855.4	11.9%	5,985.3	5.8%
RMB1 million or more.....	10,863.5	13.3%	26,273.7	28.8%	18,638.5	18.0%
<b>Total personal deposits from customers.....</b>	<b>81,695.3</b>	<b>100.0%</b>	<b>91,075.7</b>	<b>100.0%</b>	<b>103,519.9</b>	<b>100.0%</b>



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## ASSETS AND LIABILITIES

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### Other Components of Our Liabilities

Other components of our liabilities consisted primarily of (i) deposits from banks and other financial institutions, (ii) debt securities issued, (iii) financial assets sold under repurchase agreements, (iv) placements from banks and other financial institutions, (v) borrowings from central bank, (vi) tax payable and (vii) other liabilities.

Our deposits from banks and other financial institutions increased significantly from RMB5,735.5 million as of December 31, 2014 to RMB29,385.8 million as of December 31, 2015, and further increased by 53.0% to RMB44,954.8 million as of December 31, 2016, primarily due to our increased funding needs in line with the growth of our interbank businesses.

Debt securities issued consisted primarily of a number of negotiable certificates of deposit we issued in 2015 and 2016. For details of our debt securities issued, please see “Financial Information — Capital Resources — Debt — Debt Securities Issued”. Our debt securities issued amounted to nil, RMB2,979.0 million and RMB57,387.8 million as of December 31, 2014, 2015 and 2016, respectively.

Financial assets sold under repurchase agreements consist primarily of debt securities and discounted bills we sold under repurchase agreements. As of December 31, 2014, 2015 and 2016, financial assets sold under repurchase agreements were RMB2,126.2 million, RMB24,937.6 million and RMB27,580.6 million, respectively. The increases in financial assets sold under repurchase agreements were primarily to meet our liquidity needs.

Placements from banks and other financial institutions consist primarily of money market borrowings. As of December 31, 2014, 2015 and 2016, placements from banks and other financial institutions amounted to nil, nil and RMB10,400.0 million, respectively, as we obtained the qualification to conduct interbank placements in August 2016.

We had borrowings from central bank of RMB705.9 million, RMB1,651.8 million and RMB4,517.0 million as of December 31, 2014, 2015 and 2016, respectively.

Our other liabilities consisted primarily of interest payable, payment and collection clearance accounts, accrued staff cost, capital contribution from shareholders received in advance, other tax payable, dividend payable, litigation and disputes provision and other payable. Our other liabilities increased by 39.8% from RMB5,313.7 million as of December 31, 2014 to RMB7,429.8 million as of December 31, 2015 primarily due to increases in our payment and collection clearance accounts, accrued staff cost and other payable. Our other liabilities decreased by 10.8% to RMB6,631.0 million as of December 31, 2016 primarily due to a decrease in our other payables.

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## FINANCIAL INFORMATION

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*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 Appendices IA and IB to this prospectus. Our historical financial information has 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. The capital adequacy indicators discussed in this section are not part of the Accountants' Reports and have not been audited.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".*

### OVERVIEW

We are the largest city commercial bank in Henan Province, in terms of total assets, total deposits from customers, total loans to customers, total shareholders' equity, operating income and total number of outlets as of and for the year ended December 31, 2016, according to the CBRC Henan Office. We are the only city commercial bank directly administered by the provincial government in Henan Province. We ranked 210<sup>th</sup> among the "Top 1000 World Banks" in terms of tier-one capital as of December 31, 2015 by *The Banker* in 2016, being the 31<sup>st</sup> among all PRC commercial banks, and the 9<sup>th</sup> among all PRC city commercial banks on this list.

We invested in building up a business network with comprehensive coverage across Henan Province. As of December 31, 2016, we had one head office, 17 branches, 421 sub-branches, including 305 city-level sub-branches, 116 county-level and township-level sub-branches, and a total of 439 outlets, which covered all 18 prefectural-level cities and 82 counties, representing approximately 80% of all counties across Henan Province. In addition, leveraging favorable policies promulgated by the Henan Government, including "Opinions on Accelerating the Development of Zhongyuan Bank (《關於加快中原銀行發展的意見》)", we successfully established and enhanced long-term relationships with government agencies, public institutions and enterprises with strategic importance in Henan Province and China. As of the Latest Practicable Date, our corporate banking customers included many leading state-owned and private enterprises in Henan Province, covering a wide range of industries.

As of December 31, 2016, we had total assets of RMB433,071.4 million, total loans and advances to customers of RMB164,888.5 million and total deposits from customers of RMB245,352.8 million. As a city commercial bank formed through consolidation of the Thirteen City Commercial Banks, we have witnessed rapid profit growth since the Reorganization. From 2014 to 2016, our net profit increased from RMB2,668.3 million to RMB3,360.1 million, representing a CAGR of 12.2%, and our operating income increased from RMB9,520.0 million to RMB11,803.7 million, representing a CAGR of 11.4%.

### BASIS OF PRESENTATION

Pursuant to the Reorganization initiated by the PRC government, the Bank was established through the consolidation of the Thirteen City Commercial Banks on December 23, 2014 upon approval by the CBRC. Prior to the Reorganization, the business of the Bank (the "**Business**") was carried out by its predecessors, the Thirteen City Commercial Banks (the "**Predecessor Entities**"). Because there were no same party or parties ultimately controlling the Predecessor Entities and our

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Bank before and after the Reorganization, the results of the Business carried out by the Predecessor Entities for the period from January 1, 2014 to December 22, 2014 (the “**Predecessor Period**”) could not be presented in the consolidated financial information of our Bank as a continuation of the businesses in accordance with IFRS.

As described in “Our History and Development” in this prospectus,

- the Reorganization was promoted and authorized by the Henan Government and the CBRC, and supported by the PBoC pursuant to the Guidance Opinions of the State Council on Supporting Henan Province to Expedite the Development of Central Plains Economic Zone (Guofa [2011] 32) (《國務院關於支持河南省加快建設中原經濟區的指導意見》 國發[2011]32號);
- the Leading Group Office was set up to act as the overall management body of the Predecessor Entities, regulating and supervising the Business of the Predecessor Entities prior to the completion of the Reorganization;
- the Predecessor Entities agreed to merge into the Bank in their respective general meetings in 2013 and early 2014; and
- the Predecessor Entities entered into a merger and reorganization agreement dated September 3, 2014 pursuant to which the Predecessor Entities agreed to convert their equity into the equity of the Bank based on the net assets value of each of the Predecessor Entities as at December 31, 2013 and the vast majority of the profits of each of the Predecessor Entities during the Predecessor Period would be retained by the Bank.

In formulating the basis of preparation of the financial information of the Business for the Predecessor Period, the Directors of the Bank noted that currently there is neither a definition of nor a definitive principle on “reporting entity” or “combined financial statements” under IFRS, and the Directors have applied judgment in accordance with the relevant guidance under International Accounting Standard 8 “Accounting Policies, Changes in Accounting Estimates and Errors” to formulate a basis of preparation that reflects the economic substance of the Business and represents faithfully the financial position, financial performance and cash flows of the Business. Based on the factors above, the Directors of the Bank are of the view that to present the financial information with a focus on the substance of the Business rather than the form of legal entities constituting the Business is a better reflection of the economic substance of the Business and provides better continuity and comparability to the financial information of the Business for the relevant Track Record Period. Therefore, the Bank presents the financial information of the Business carried out by the Predecessor Entities for the Predecessor Period on a combined basis. The combined financial information of the Predecessor Entities faithfully represents the financial position, financial performance and cash flows of the Business during the Predecessor Period, and is more relevant for the users to assess the performance of the Business during the Predecessor Period and make economic decisions as compared to a set of financial information for each of the Predecessor Entities which cannot present a full picture of the Business that was centrally managed by the Leading Group Office, and cannot reflect the fact that the operating results of the Predecessor Entities during the Predecessor Period were in substance collectively shared among all shareholders of the Predecessor Entities.

Accordingly, the Directors of the Bank have prepared two sets of financial information included in the accountants’ reports as set forth in Appendix IA and Appendix IB to this prospectus:

- the financial information of the Business carried out by the Predecessor Entities for the Predecessor Period, which includes the combined statement of financial position of the Business as at December 22, 2014, the combined statement of profit or loss and other

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comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Business for the Predecessor Period (the “**Combined Financial Information**”), and is included in the accountants’ report as set forth in Appendix IA to this prospectus; and

- the financial information of our Bank for the period from December 23, 2014 to December 31, 2014 and for the years ended December 31, 2015 and 2016 (the “**Post-Predecessor Period**”), which includes the consolidated statements of financial position as at December 31, 2014, 2015 and 2016, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the Post-Predecessor Period (the “**Historical Financial Information**”), and is included in the accountants’ report as set forth in Appendix IB to this prospectus.

Both the Combined Financial Information and the Historical Financial Information are prepared using accounting policies in accordance with IFRS.

In order to present our financial condition and results of operations on a comparable basis during the Track Record Period, we have added the corresponding statement of profit and loss and other comprehensive income line items (i) for the period from January 1, 2014 to December 22, 2014 in the Combined Financial Information and (ii) for the period from December 23, 2014 to December 31, 2014 in the Historical Financial Information for purpose of presenting statement of profit and loss and other comprehensive income figures for the full year ended December 31, 2014 in this section and other sections of this prospectus.

Due to the presentation adjustments mentioned above, some of the amounts and numbers presented in this prospectus in relation to the year ended December 31, 2014 were derived from calculations using the amounts and numbers in the Combined Financial Information and the Historical Financial Information and not directly from the Combined Financial Information or the Historical Information themselves.

### GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our results of operations 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 Henan Province

As a city commercial bank whose distribution network covers the entire Henan Province, our financial condition and results of operations are affected by the economic conditions of the PRC, in particular, Henan Province and the macroeconomic policies implemented by the PRC government. From 2011 to 2016, according to the NBS, the PRC’s nominal GDP grew at a CAGR of 8.7%. 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 of the corporate and retail banking business of PRC commercial banks. For example, according to the PBoC, from December 31, 2011 to December 31, 2016, total RMB-denominated loans and RMB-denominated deposits in the PRC banking industry grew at a CAGR of 14.2% and 13.2%, respectively. According to recent CBRC statistics, total assets of PRC financial institutions in the banking industry have reached RMB232.3 trillion as of December 31, 2016, representing a CAGR of 15.4% from December 31, 2011.

After three decades of rapid development, China’s economy has entered a “new normal” stage, in which the economy experiences a transition to a target of achieving sustainable growth, emphasizing efficiency and quality over quick expansion. In 2016, China’s real GDP growth rate was 6.7%. The slowdown of growth in the overall economy and certain industries in China may affect the results of operations and financial condition of PRC commercial banks.

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As our operating income was primarily derived from Henan Province during the Track Record Period, the current and future economic conditions of Henan Province may affect our business, results of operations and financial condition. Notwithstanding the above mentioned factors, leveraging its strategic location and the favorable national policy encouraging local economic development, Henan Province has witnessed rapid economic growth in recent years. The GDP for Henan Province amounted to RMB4,016.0 billion in 2016, ranked 1<sup>st</sup> among 18 provinces in mid-western China, the 5<sup>th</sup> among all PRC provinces, growing at a CAGR of 8.3% from 2011 to 2016. Furthermore, the State Council has issued multiple national strategic plans in recent years aimed at propelling the overall economic development of Henan Province. In September 2011, the State Council issued the Guiding Opinion of the State Council on Supporting Henan Province to Accelerate the Construction of Central Plains Economic Zone (《國務院關於支持河南省加快建設中原經濟區的指導意見》), setting out a national strategic plan for the Central Plains Economic Zone. The zone was designated to advance the overall process of industrialization, urbanization and agricultural modernization of Henan Province. In March 2013, the State Council approved the Planning and Development of Zhengzhou Airport Economic Experimental Zone (2013-2025) (《鄭州航空港經濟綜合實驗區發展規劃 (2013-2025年)》), aimed at transforming Zhengzhou into a key international air logistics center and a key passenger interchange center in China. In August 2016, the State Council approved the establishment of a China (Henan) Pilot Free Trade Zone by Henan Province which focuses on building an integrated logistics and transportation hub. Commercial banks in Henan Province are expected to benefit from such favorable strategic policies and planning.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including (i) adjusting the benchmark interest rates and the PBoC statutory deposit reserve ratios for commercial banks, as well as gradually liberalizing the regulation of 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 example, on March 1, 2016, the PBoC lowered the statutory deposit reserve ratio by 50 basis points for all deposit-taking financial institutions, which lowered banks' funding cost and increased their liquidity. These macroeconomic and monetary policies have had a significant impact on lending activities of PRC commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operations and financial condition of PRC commercial banks, including ours.

### Interest Rates

Our operating income depends substantially on our net interest income. For the years ended December 31, 2014, 2015 and 2016, our net interest income accounted for 95.3%, 95.5% and 94.9% of our total operating income, respectively. Net interest income is affected by interest rates and the average balances of our interest-earning assets and interest-bearing liabilities. Interest rates applicable to us are affected by many factors that are beyond our control, such as the benchmark interest rates set by the PBoC, regulations in the banking and financial sectors in the PRC, domestic and international economic and political conditions, and competition in the PRC banking industry.

In the PRC, interest rates on RMB-denominated loans and deposits are set by financial institutions with reference to the benchmark interest rates on loans and deposits published and adjusted from time to time by the PBoC. The PBoC has, in the past few years, made multiple downward adjustments to the benchmark interest rates for deposits and loans. In October 2015, the PBoC further lowered the benchmark interest rates for RMB-denominated deposits and loans to 1.50% and 4.35%, respectively. The PBoC's interest rate adjustments for loans and deposits may be asymmetrical in certain circumstances, which may impact our net interest spread.

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In recent years, China has continued its interest rate liberalization and moved towards a market-based interest rate regime. Effective from June 8, 2012, the PBoC allowed financial institutions to set interest rates on RMB-denominated deposits up to 110% of the PBoC benchmark rates, and this cap 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 from August 26, 2015, the PBoC removed the interest rate cap on RMB-denominated time deposits with maturities over one year. Effective October 24, 2015, the PBoC removed the interest rate cap on RMB-denominated demand deposits as well as time deposits with maturities within one year. On July 20, 2013, the PBoC abolished 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 bring more competition in the PRC banking industry, thereby affecting our business, results of operations and financial condition.

In addition, the liberalization of interest rates and market competition may lead to a decrease in the net interest spread for our interbank businesses. For instance, the average yield of our deposits with banks and other financial institutions was 3.59%, 3.21% and 2.18% in 2014, 2015 and 2016, respectively, while the average cost of our deposits from banks and other financial institutions was 4.72%, 3.51% and 3.28% for the same years. As a result, our net interest income may be adversely impacted and our business, results of operations and financial condition may be affected. Please also see “Risk Factors — Risks Relating to the PRC Banking Industry — Further development of interest rate liberalization, the PBoC’s adjustments to the benchmark interest rate, deposit insurance program and other regulatory changes in the PRC’s banking industry may materially and adversely affect our results of operations”.

### **Regulatory Environment**

The PRC banking industry is highly regulated. PRC commercial banks are mainly regulated by the CBRC and PBoC. Additionally, PRC commercial banks are also subject to the supervision and regulation of other regulatory authorities, including the SAFE, CSRC, CIRC, NDRC and MOF. Please see “Supervision and Regulation — Principal Regulators”.

Our business, results of operations and financial condition are affected by changes in PRC banking laws, regulations and policies, such as the scope of business activities PRC commercial banks are permitted to engage in, interest 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 regulations on wealth management and interbank businesses of PRC commercial banks, while restrictions on the asset securitization market have been relaxed. New regulations issued by regulatory authorities may impact our business, results of operations and financial condition.

### **Development of China’s Capital Markets and Internet Finance**

Recently, China has launched a number of initiatives to develop its capital markets and has encouraged enterprises to seek direct financing from the capital markets, which may affect the core businesses of PRC commercial banks. For example, the deepening development 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 demand 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 may broaden the scope of securities we may invest in.

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Furthermore, China's traditional banking institutions are facing more challenges from innovations in financial products and technology, for example, online wealth management products, third-party online payment platforms and Internet financing. These innovations in products and technologies may affect the business, results of operations and financial condition of PRC commercial banks.

### Competitive Landscape in the PRC Banking Industry

We compete primarily with commercial banks operating in Henan Province, mainly on product offerings and prices, service quality, brand recognition, distribution networks and information technology capabilities. We also face competition from other banking and non-banking financial institutions in Henan Province, including rural credit cooperatives, securities firms, fund management companies and insurance companies.

In recent years, a large number of commercial banks in the PRC have completed restructurings or public offerings, which have thereby permitted them to obtain more sufficient funding to offer more innovative products and higher quality services, and have increased their adaptability in a changing market environment. The increase in competition in the PRC banking industry may affect the pricing of our loans and deposits as well as our fee- and commission-based banking business. Please see "Business — Competition".

### SELECTED FINANCIAL DATA

The following table sets forth our statement of profit or loss and other comprehensive income for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the year ended December 31,		
			2014	2015	2016
(in millions of RMB)					
Interest income.....	12,293.3	524.2	12,817.5	15,493.3	17,005.1
Interest expense.....	(3,557.6)	(191.0)	(3,748.6)	(4,945.2)	(5,801.8)
<b>Net interest income.....</b>	<b>8,735.7</b>	<b>333.2</b>	<b>9,068.9</b>	<b>10,548.1</b>	<b>11,203.3</b>
Fee and commission income.....	144.6	6.6	151.2	182.7	510.3
Fee and commission expense.....	(52.3)	(2.2)	(54.5)	(47.8)	(61.2)
<b>Net fee and commission income.....</b>	<b>92.3</b>	<b>4.4</b>	<b>96.7</b>	<b>134.9</b>	<b>449.1</b>
Net trading gains/(losses).....	133.9	8.8	142.7	142.4	(71.7)
Net gains/(losses) arising from investments securities.....	2.8	37.7	40.5	(0.6)	9.1
Other operating income <sup>(1)</sup> .....	118.3	52.9	171.2	225.5	213.9
<b>Operating income.....</b>	<b>9,083.0</b>	<b>437.0</b>	<b>9,520.0</b>	<b>11,050.3</b>	<b>11,803.7</b>
Operating expenses.....	(3,500.7)	(531.1)	(4,031.8)	(5,120.4)	(5,136.3)
Impairment (losses)/reversals on assets.....	(1,969.3)	52.1	(1,917.2)	(1,887.1)	(2,246.8)
<b>Operating profit/(loss).....</b>	<b>3,613.0</b>	<b>(42.0)</b>	<b>3,571.0</b>	<b>4,042.8</b>	<b>4,420.6</b>
Share of profits of associates.....	2.5	0.2	2.7	—	—
<b>Profit/(loss) before tax.....</b>	<b>3,615.5</b>	<b>(41.8)</b>	<b>3,573.7</b>	<b>4,042.8</b>	<b>4,420.6</b>
Income tax.....	(914.8)	9.4	(905.4)	(1,030.4)	(1,060.5)
<b>Profit/(loss) for the period/year.....</b>	<b>2,700.7</b>	<b>(32.4)</b>	<b>2,668.3</b>	<b>3,012.4</b>	<b>3,360.1</b>

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*Note:*

(1) Consists primarily of government grants, rental income, net gains on disposal of property and equipment and others.

The following table sets forth selected financial ratios for the periods indicated.

	For the year ended December 31,		
	2014	2015	2016
<b>Profitability indicators</b>			
Return on average assets <sup>(1)</sup> .....	1.35%	1.17%	0.91%
Return on average equity <sup>(2)</sup> .....	11.67%	9.81%	9.75%
Net interest spread <sup>(3)</sup> .....	4.71%	3.68%	3.07%
Net interest margin <sup>(4)</sup> .....	4.97%	3.96%	3.26%
Net fee and commission income to operating income.....	1.02%	1.22%	3.80%
Cost-to-income ratio <sup>(5)</sup> .....	35.77%	39.73%	41.21%

*Notes:*

- (1) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and the end of the period.
- (2) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and the end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income.

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

	Regulatory requirement	As of December 31,		
		2014	2015	2016
<b>Capital adequacy indicators</b>				
Core tier-one capital adequacy ratio <sup>(1)</sup> .....	≥7.5%	16.98%	14.77%	11.24%
Tier-one capital adequacy ratio <sup>(2)</sup> .....	≥8.5%	16.99%	14.77%	11.25%
Capital adequacy ratio <sup>(3)</sup> .....	≥10.5%	18.57%	16.14%	12.37%
Total equity to total assets .....	—	13.54%	10.92%	8.20%
<b>Asset quality indicators</b>				
Non-performing loan ratio <sup>(4)</sup> .....	≤5%	1.92%	1.95%	1.86%
Allowance coverage ratio <sup>(5)</sup> .....	≥150%	219.32%	210.48%	207.09%
Allowance to gross loan ratio <sup>(6)</sup> .....	≥2.5%	4.21%	4.10%	3.85%
<b>Other indicators</b>				
Loan-to-deposit ratio <sup>(7)</sup> .....	≤75%	67.52%	67.97%	67.20%

*Notes:*

- (1) 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, please see “Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards Over Capital Adequacy” and “ — Capital Resources — Capital Adequacy”.



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- (2) 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, please see “Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards Over Capital Adequacy” and “ — Capital Resources — Capital Adequacy”.
- (3) 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, please 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 non-performing loans by gross loans to customers.
- (5) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans.
- (6) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans to customers.
- (7) Calculated by dividing total loans to customers by total deposits from customers. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio of no higher than 75%. Effective from October 1, 2015, the PRC Commercial Bank Law was amended and the 75% maximum loan-to-deposit ratio was repealed.

As of December 31, 2014, 2015 and 2016, our core tier-one capital adequacy ratio decreased from 16.98% to 14.77% and further decreased to 11.24%, our tier-one capital adequacy ratio decreased from 16.99% to 14.77% and further decreased to 11.25%, and capital adequacy ratio decreased from 18.57% to 16.14% and further decreased to 12.37%. Such decreases were primarily because the rapid growth of our total assets which increased our risk-weight assets, outpaced the speed at which we replenished our capital, including core tier-one capital and tier-one capital.

As of December 31, 2014, 2015 and 2016, our equity to total assets decreased from 13.54% to 10.92% and further decreased to 8.20%, primarily due to our continuous efforts in extending loans and developing structured finance business and financial markets business during the Track Record Period, which resulted in rapid growth of our total assets, outpacing the growth of our equity in the same periods.

Our non-performing loan ratio increased from 1.92% as of December 31, 2014 to 1.95% as of December 31, 2015 primarily due to an increase in our non-performing personal loan ratio as a result of deteriorated financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy, which was partially offset by a decrease in our non-performing corporate loan ratio from 2.63% as of December 31, 2014 to 2.13% as of December 31, 2015 as a result of (i) our efforts to recover existing non-performing corporate loans after the Reorganization, and (ii) our strict risk management measures to control loans to corporations in high risk industries. Our non-performing loan ratio decreased from 1.95% as of December 31, 2015 to 1.86% as of December 31, 2016 primarily due to a decrease in our non-performing corporate loan ratio from 2.13% as of December 31, 2015 to 1.78% as of December 31, 2016 as a result of (i) our continued efforts to recover existing non-performing loans, (ii) our continued efforts to strengthen our risk management and (iii) our strategy to focus on developing quality customers with good credit records.

Our NPL ratio as of December 31, 2014, 2015 and 2016 was higher than the industry average as of the same dates mainly because during the Reorganization we inherited from the Thirteen City Commercial Banks certain assets and customers of unsatisfying quality. After the Reorganization, the Bank has continuously made efforts to recover existing non-performing loans, strengthen risk management measures, and develop quality customers with good credit records. However, the decrease in the non-performing corporate loan ratio was offset by higher non-performing personal loan ratio as a result of deteriorated financial condition and repayment abilities of certain individual businesses during the slowdown of the PRC economy.

As of December 31, 2014, 2015 and 2016, our allowance coverage ratio decreased from 219.32% to 210.48% and further decreased to 207.09%. 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 RMB2,135.2 million, RMB2,719.2 million and RMB3,062.1 million as of December 31, 2014, 2015 and 2016, respectively. The decrease in our allowance coverage ratio is largely consistent with the

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overall banking industry. According to CBRC, allowance coverage ratio of the PRC banking industry was 232.1%, 181.2%, and 175.5% as of December 31, 2014, 2015 and 2016, respectively. Notwithstanding the foregoing, our allowance coverage ratio remained well above the regulatory requirement of 150%.

As of December 31, 2014, 2015 and 2016, our allowance to gross loan ratio decreased from 4.21% to 4.10% and further decreased to 3.85%. The slight decrease in our allowance to gross loan ratio was primarily due to a faster year-on-year increase in our gross loans and advances to customers in line with our business expansion, which amounted to RMB111,132.8 million, RMB139,599.5 million and RMB164,888.5 million as of December 31, 2014, 2015 and 2016, respectively, as compared to our allowance for impairment losses, which amounted to RMB4,683.0 million, RMB5,723.4 million and RMB6,341.2 million as of December 31, 2014, 2015 and 2016, respectively. Notwithstanding the foregoing, our allowance coverage ratio remained well above the regulatory requirement of 2.5%.

Our loan-to-deposit ratios were 67.52%, 67.97%, and 67.20% as of December 31, 2014, 2015 and 2016, respectively, which remained relatively stable, and were all complied with the regulatory requirement of no higher than 75%.

### RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

Our net profit increased by 12.9% from RMB2,668.3 million for the year ended December 31, 2014 to RMB3,012.4 million for the year ended December 31, 2015, and further increase by 11.5% to RMB3,360.1 million for the year ended December 31, 2016, primarily due to increases in our net interest income and net fee and commission income for the same periods, which were in line with the expansion of our operational scale.

#### Net Interest Income

During the Track Record Period, net interest income was the largest component of our operating income, representing 95.3%, 95.5% and 94.9% of our operating income for the years ended December 31, 2014, 2015 and 2016, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
Interest income.....	12,293.3	524.2	12,817.5	15,493.3	17,005.1
Interest expense.....	(3,557.6)	(191.0)	(3,748.6)	(4,945.2)	(5,801.8)
<b>Net interest income.....</b>	<b>8,735.7</b>	<b>333.2</b>	<b>9,068.9</b>	<b>10,548.1</b>	<b>11,203.3</b>

Our net interest income increased by 16.3% from RMB9,068.9 million in 2014 to RMB10,548.1 million in 2015 primarily due to a 20.9% increase in interest income, which was partially offset by a 31.9% increase in interest expense. Our net interest income increased by 6.2% from RMB10,548.1 million in 2015 to RMB11,203.3 million in 2016 primarily due to a 9.8% increase in interest income, which was partially offset by a 17.3% increase in interest expense.

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The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on assets or related average cost of liabilities for the periods indicated.

	For the year ended December 31,								
	2014			2015			2016		
	Average balance	Interest income/ expense	Average yield/ cost <sup>(1)</sup>	Average balance	Interest income/ expense	Average yield/ cost <sup>(1)</sup>	Average balance	Interest income/ expense	Average yield/ cost <sup>(1)</sup>
(in millions of RMB, except percentages)									
<b>Interest-earning assets</b>									
Loans and advances to customers .....	98,839.7	9,421.2	9.53%	131,823.7	10,498.8	7.96%	159,482.2	10,091.6	6.33%
Investment securities and other financial assets <sup>(2)</sup> ....	31,407.8	2,198.0	7.00%	62,311.0	3,299.5	5.30%	137,191.8	6,081.9	4.43%
Deposits with banks and other financial institutions .....	6,482.7	232.9	3.59%	6,558.9	210.5	3.21%	4,635.7	101.0	2.18%
Financial assets held under resale agreements .....	10,170.2	465.0	4.57%	29,241.3	961.1	3.29%	4,573.2	141.0	3.08%
Deposits with the central bank <sup>(3)</sup> .....	35,514.7	500.4	1.41%	36,283.5	523.4	1.44%	36,940.6	546.1	1.48%
Placements with banks and other financial institutions .....	—	—	—	—	—	—	1,185.8	43.5	3.67%
<b>Total interest-earning assets .....</b>	<b><u>182,415.1</u></b>	<b><u>12,817.5</u></b>	<b><u>7.03%</u></b>	<b><u>266,218.4</u></b>	<b><u>15,493.3</u></b>	<b><u>5.82%</u></b>	<b><u>344,009.3</u></b>	<b><u>17,005.1</u></b>	<b><u>4.94%</u></b>
<b>Interest-bearing liabilities</b>									
Deposits from customers .....	149,968.0	3,259.0	2.17%	187,420.8	3,530.6	1.88%	227,964.8	3,394.3	1.49%
Financial assets sold under repurchase agreements ....	2,361.1	78.6	3.33%	10,318.7	254.7	2.47%	20,841.7	476.5	2.29%
Deposits from banks and other financial institutions .....	8,067.1	381.0	4.72%	31,915.2	1,121.1	3.51%	35,388.2	1,161.2	3.28%
Debt securities issued <sup>(4)</sup> .....	—	—	—	235.9	8.2	3.48%	23,857.7	727.9	3.05%
Borrowings from central bank .....	934.0	30.0	3.21%	896.8	30.6	3.41%	927.3	28.0	3.02%
Placements from banks and other financial institutions .....	—	—	—	—	—	—	479.0	13.9	2.90%
<b>Total interest-bearing liabilities .....</b>	<b><u>161,330.2</u></b>	<b><u>3,748.6</u></b>	<b><u>2.32%</u></b>	<b><u>230,787.4</u></b>	<b><u>4,945.2</u></b>	<b><u>2.14%</u></b>	<b><u>309,458.7</u></b>	<b><u>5,801.8</u></b>	<b><u>1.87%</u></b>
<b>Net interest income .....</b>		<b><u>9,068.9</u></b>			<b><u>10,548.1</u></b>			<b><u>11,203.3</u></b>	
<b>Net interest spread<sup>(5)</sup> .....</b>			<b>4.71%</b>			<b>3.68%</b>			<b>3.07%</b>
<b>Net interest margin<sup>(6)</sup> .....</b>			<b>4.97%</b>			<b>3.96%</b>			<b>3.26%</b>

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) Consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

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- (3) Consist of statutory deposit reserves, surplus deposit reserves and fiscal deposits.  
(4) Consist of negotiable certificates of deposit issued by us.  
(5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.  
(6) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the year ended December 31,					
	2015 vs. 2014			2016 vs. 2015		
	Increase/(decrease) due to		Net increase/ (decrease) <sup>(3)</sup>	Increase/(decrease) due to		Net increase/ (decrease) <sup>(3)</sup>
	Volume <sup>(1)</sup>	Rate <sup>(2)</sup>		Volume <sup>(1)</sup>	Rate <sup>(2)</sup>	
(in millions of RMB)						
<b>Assets</b>						
Loans and advances to customers.....	2,626.9	(1,549.3)	1,077.6	1,750.2	(2,157.4)	(407.2)
Investment securities and other financial assets <sup>(4)</sup> .....	1,636.4	(534.9)	1,101.5	3,319.6	(537.2)	2,782.4
Deposits with banks and other financial institutions.....	2.4	(24.8)	(22.4)	(41.9)	(67.6)	(109.5)
Financial assets held under resale agreement.....	626.8	(130.7)	496.1	(760.6)	(59.5)	(820.1)
Deposits with the central bank <sup>(5)</sup> .....	11.1	11.9	23.0	9.7	13.0	22.7
Placements with banks and other financial institutions.....	—	—	—	43.5	—	43.5
<b>Changes in interest income</b> .....	<b>4,903.6</b>	<b>(2,227.8)</b>	<b>2,675.8</b>	<b>4,320.5</b>	<b>(2,808.7)</b>	<b>1,511.8</b>
<b>Liabilities</b>						
Deposits from customers.....	705.5	(433.9)	271.6	603.7	(740.0)	(136.3)
Financial assets sold under repurchase agreements.....	196.4	(20.3)	176.1	240.6	(18.8)	221.8
Deposits from banks and other financial institutions.....	837.7	(97.6)	740.1	114.0	(73.9)	40.1
Debt securities issued <sup>(6)</sup> .....	8.2	—	8.2	720.7	(1.0)	719.7
Placements from banks and other financial institutions.....	—	—	—	13.9	—	13.9
Borrowings from central bank.....	(1.3)	1.9	0.6	0.9	(3.5)	(2.6)
<b>Changes in interest expense</b> .....	<b>1,746.5</b>	<b>(549.9)</b>	<b>1,196.6</b>	<b>1,693.8</b>	<b>(837.2)</b>	<b>856.6</b>
<b>Changes in net interest income</b> .....	<b>3,157.1</b>	<b>(1,677.9)</b>	<b>1,479.2</b>	<b>2,626.7</b>	<b>(1,971.5)</b>	<b>655.2</b>

Notes:

- (1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.  
(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.  
(3) Represents interest income/expense for the year minus interest income/expense for the previous year.  
(4) Consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.  
(5) Consist of statutory deposit reserves, surplus deposit reserves and fiscal deposits.  
(6) Consist of negotiable certificates of deposit issued by us.

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### Interest Income

The following table sets forth a breakdown of our interest income for the periods indicated.

	For the Period from January 1, 2014 to December 22, 2014		For the Period from December 23, 2014 to December 31, 2014		For the year ended December 31,					
	Amount	% of total	Amount	% of total	2014		2015		2016	
					Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)										
<b>Interest income from .....</b>										
Loans and advances to customers .....	9,229.6	75.1%	191.6	36.6%	9,421.2	73.5%	10,498.8	67.8%	10,091.6	59.3%
- Corporate loans and advances .....	6,637.3	54.0%	140.1	26.8%	6,777.4	52.9%	7,368.4	47.6%	7,329.2	43.0%
- Personal loans and advances .....	1,674.3	13.6%	44.5	8.5%	1,718.8	13.4%	2,115.6	13.7%	2,324.9	13.7%
- Discounted bills .....	918.0	7.5%	7.0	1.3%	925.0	7.2%	1,014.8	6.5%	437.5	2.6%
Investment securities and other financial assets <sup>(1)</sup> .....	1,948.6	15.9%	249.4	47.6%	2,198.0	17.2%	3,299.5	21.3%	6,081.9	35.8%
Financial assets held under resale agreements.....	443.5	3.6%	21.5	4.1%	465.0	3.6%	961.1	6.2%	141.0	0.8%
Deposits with banks and other financial institutions .....	214.0	1.7%	18.9	3.5%	232.9	1.8%	210.5	1.4%	101.0	0.6%
Deposits with the central bank .....	457.6	3.7%	42.8	8.2%	500.4	3.9%	523.4	3.3%	546.1	3.2%
Placements with banks and other financial institutions.....	—	—	—	—	—	—	—	—	43.5	0.3%
<b>Total interest income.....</b>	<b>12,293.3</b>	<b>100.0%</b>	<b>524.2</b>	<b>100.0%</b>	<b>12,817.5</b>	<b>100.0%</b>	<b>15,493.3</b>	<b>100.0%</b>	<b>17,005.1</b>	<b>100.0%</b>

Note:

- (1) Consist primarily of our investments in debt securities, trust plans, wealth management products and asset management plans.

Our interest income increased by 20.9% from RMB12,817.5 million in 2014 to RMB15,493.3 million in 2015 primarily due to a 45.9% increase in the average balance of interest-earning assets from RMB182,415.1 million in 2014 to RMB266,218.4 million in 2015, which was partially offset by a decrease in the average yield on interest-earning assets from 7.03% in 2014 to 5.82% in 2015. The increase in the average balance of interest-earning assets was primarily attributable to the increases in the average balance of loans and advances to customers, investment securities and other financial assets and financial assets held under resale agreements, which were in line with our business growth. The decrease in the average yield on interest-earning assets was primarily attributable to consecutive interest rate cuts by the PBoC in 2015.

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Our interest income increased by 9.8% from RMB15,493.3 million in 2015 to RMB17,005.1 million in 2016 primarily due to a 29.2% increase in the average balance of interest-earning assets from RMB266,218.4 million in 2015 to RMB344,009.3 million in 2016, which was partially offset by a decrease in the average yield on interest-earning assets from 5.82% in 2015 to 4.94% in 2016. The increase in the average balance of interest-earning assets was primarily attributable to the increases in the average balance of loans and advances to customers and investment securities and other financial assets, which were primarily due to the continued expansion of our operational scale. The decrease in the average yield on interest-earning assets was primarily attributable to (i) the impact of the consecutive interest rate cuts by the PBoC in 2015; (ii) market competition as a result of the interest rate liberalization, and (iii) the increase in the proportion of loans to large enterprises and residential mortgage loans.

### *Interest Income from Loans and Advances to Customers*

During the Track Record Period, interest income from loans and advances to customers was the largest component of our interest income, representing 73.5%, 67.8% and 59.3% of our interest income in 2014, 2015 and 2016, respectively.

The following table sets forth the average balance, interest income and average yield for each component of our loans and advances to customers for the periods indicated.

	For the Period from January 1, 2014 to December 22, 2014	For the Period from December 23, 2014 to December 31, 2014	For the year ended December 31,								
			2014			2015			2016		
	Interest income	Interest income	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 ...	6,637.3	140.1	66,500.0	6,777.4	10.19%	86,191.6	7,368.4	8.55%	109,753.4	7,329.2	6.68%
Personal loans .....	1,674.3	44.5	17,908.2	1,718.8	9.60%	23,547.5	2,115.6	8.98%	35,387.7	2,324.9	6.57%
Discounted bills .....	918.0	7.0	14,431.5	925.0	6.41%	22,084.6	1,014.8	4.60%	14,341.1	437.5	3.05%
<b>Total loans and advances to customer .....</b>	<b>9,229.6</b>	<b>191.6</b>	<b>98,839.7</b>	<b>9,421.2</b>	<b>9.53%</b>	<b>131,823.7</b>	<b>10,498.8</b>	<b>7.96%</b>	<b>159,482.2</b>	<b>10,091.6</b>	<b>6.33%</b>

Our interest income from loans and advances to customers increased by 11.4% from RMB9,421.2 million in 2014 to RMB10,498.8 million in 2015 primarily due to a 33.4% increase in the average balance of total loans and advances to customers from RMB98,839.7 million in 2014 to RMB131,823.7 million in 2015, which was partially offset by a decrease in the average yield on total loans and advances to customers from 9.53% in 2014 to 7.96% in 2015. The increase in the average balance of total loans and advances to customers was primarily attributable to the increases in corporate loans and advances, personal loans and advances and discounted bills, which were primarily due to the continued expansion of our operational scale. The decrease in the average yield on total loans and advances to customers was primarily attributable to consecutive interest rate cuts by the PBoC in 2015.

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Our interest income from loans and advances to customers decreased by 3.9% from RMB10,498.8 million in 2015 to RMB10,091.6 million in 2016 primarily due to a decrease in the average yield on total loans and advances to customers from 7.96% in 2015 to 6.33% in 2016, which was partially offset by a 21.0% increase in the average balance of total loans and advances to customers from RMB131,823.7 million in 2015 to RMB159,482.2 million in 2016. The decrease in the average yield on total loans and advances to customers was primarily attributable to (i) the impact of the consecutive interest rate cuts by the PBoC in 2015, (ii) market competition as a result of the interest rate liberalization, and (iii) our increased loans to large enterprise customers and residential mortgage loans as a percentage of our loan portfolio. The increase in the average balance of total loans and advances to customers was primarily attributable to the increases in corporate loans and advances and personal loans in 2016, which were primarily due to the continued expansion of our operational scale.

During the Track Record Period, interest income from corporate loans was the largest component of our interest income from loans and advances to customers, representing 71.9%, 70.2% and 72.6% of our total interest income from loans to customers for 2014, 2015 and 2016, respectively.

*Corporate Loans.* Our interest income from corporate loans increased by 8.7% from RMB6,777.4 million in 2014 to RMB7,368.4 million in 2015 primarily due to a 29.6% increase in the average balance of our corporate loans from RMB66,500.0 million in 2014 to RMB86,191.6 million in 2015, which was partially offset by a decrease in average yield on our corporate loans from 10.19% in 2014 to 8.55% in 2015. The increase in the average balance of our corporate loans was attributable to our efforts to grow corporate loan business. The decrease in the average yield on corporate loans and advances was primarily due to (i) consecutive interest rate cuts by the PBoC in 2015 and (ii) an increase in the proportion of loans and advances to large enterprises with relatively lower interest rates in 2015.

Our interest income from corporate loans decreased by 0.5% from RMB7,368.4 million in 2015 to RMB7,329.2 million in 2016 primarily due to a decrease in average yield on our corporate loans from 8.55% in 2015 to 6.68% in 2016, which was partially offset by a 27.3% increase in the average balance of our corporate loans from RMB86,191.6 million in 2015 to RMB109,753.4 million in 2016. The decrease in the average yield on corporate loans was primarily due to (i) the impact of the consecutive interest rate cuts by the PBoC in 2015 and the market competition as a result of the interest rate liberalization and (ii) an increase in the proportion of loans to large enterprises with relatively low interest rates. The increase in the average balance of our corporate loans was attributable to our continued efforts to grow corporate loan business in 2016.

*Personal Loans.* Our interest income from personal loans increased by 23.1% from RMB1,718.8 million in 2014 to RMB2,115.6 million in 2015 primarily due to a 31.5% increase in the average balance of our personal loans from RMB17,908.2 million in 2014 to RMB23,547.5 million in 2015, which was partially offset by a decrease in the average yield on our personal loans from 9.60% in 2014 to 8.98% in 2015. The increase in the average balance of our personal loans was attributable to our efforts to grow our personal loan business. The decrease in the average yield on personal loans and advances was primarily due to consecutive interest rate cuts by the PBoC in 2015.

Our interest income from personal loans increased by 9.9% from RMB2,115.6 million in 2015 to RMB 2,324.9 million in 2016 primarily due to a 50.3% increase in the average balance of our personal loans from RMB23,547.5 million in 2015 to RMB35,387.7 million in 2016, which was partially offset by a decrease in the average yield on our personal loans from 8.98% in 2015 to 6.57% in 2016. The increase in the average balance of our personal loans was attributable to our continued

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efforts to grow our personal loan business in 2016. The decrease in the average yield on personal loans was primarily due to (i) the impact of the consecutive interest rate cuts by the PBoC in 2015, (ii) market competition after the interest rate liberalization, and (iii) an increase in the proportion of residential mortgage loans with relatively low interest rates.

*Discounted Bills.* Our interest income from discounted bills increased by 9.7% from RMB925.0 million in 2014 to RMB1,014.8 million in 2015 primarily due to a 53.0% increase in the average balance of our discounted bills from RMB14,431.5 million in 2014 to RMB22,084.6 million in 2015, which was partially offset by a decrease in the average yield on our discounted bills from 6.41% in 2014 to 4.60% in 2015. The increase in the average balance of our discounted bills was primarily because we grew our bill discounting business in 2015. The decrease in the average yield on discounted bills was primarily due to decreased market interest rates for discounted bills in 2015.

Our interest income from discounted bills decreased by 56.9% from RMB1,014.8 million in 2015 to RMB437.5 million in 2016 primarily due to (i) a 35.1% decrease in the average balance of our discounted bills from RMB22,084.6 million in 2015 to RMB14,341.1 million in 2016 and (ii) a decrease in the average yield on our discounted bills from 4.60% in 2015 to 3.05% in 2016. The decrease in the average balance of our discounted bills was primarily because we continued to optimize our asset structure by expanding loans and advances to customers and investment securities and other financial assets, and scaling back our discounted bills in 2016. The decrease in the average yield on discounted bills was primarily due to decreased market interest rates for discounted bills in 2016.

### *Interest Income from Investment Securities and Other Financial Assets*

Interest income from investment securities and other financial assets accounted for 17.2%, 21.3% and 35.8% of our interest income in 2014, 2015 and 2016, respectively.

Our interest income from investment securities and other financial assets increased by 50.1% from RMB2,198.0 million in 2014 to RMB3,299.5 million in 2015 primarily due to a significant increase in the average balance of our investment securities and other financial assets from RMB31,407.8 million in 2014 to RMB62,311.0 million in 2015, which was partially offset by a decrease in the average yield on our investment securities and other financial assets from 7.00% in 2014 to 5.30% in 2015. The increase in the average balance of our investment securities and other financial assets was primarily due to (i) an increase in our investments in debt securities, asset management plans, trust plans and wealth management plans in line with our efforts to expand financial markets operations after the Reorganization and (ii) an increase in funds available for investments. The decrease in the average yield on our investment securities and other financial assets was primarily due to a decrease in market interest rates as a result of lower PBoC benchmark interest rates and loose market liquidity in 2015.

Our interest income from investment securities and other financial assets increased by 84.3% from RMB3,299.5 million in 2015 to RMB6,081.9 million in 2016 primarily due to a significant increase in the average balance of our investment securities and other financial assets from RMB62,311.0 million in 2015 to RMB137,191.8 million in 2016, which was partially offset by a decrease in the average yield on our investment securities and other financial assets from 5.30% in 2015 to 4.43% in 2016. The increase in the average balance of our investment securities and other financial assets was primarily due to (i) our continued efforts to increase debt securities investment to improve liquidity and (ii) an increase in funds available for investments. The decrease in the



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average yield on our investment securities and other financial assets was primarily due to (i) a decrease in market interest rates as a result of the loose market liquidity in most of 2016 after the interest rate reduction cycle, and (ii) an increase in proportion of debt securities with high liquidity as we strived to strengthen our liquidity risk-bearing capability.

### *Interest Income from Financial Assets held under Resale Agreements*

Interest income from financial assets held under resale agreements represented 3.6%, 6.2% and 0.8% of our interest income in 2014, 2015 and 2016, respectively.

Our interest income from financial assets held under resale agreements increased significantly from RMB465.0 million in 2014 to RMB961.1 million in 2015 primarily due to a significant increase in the average balance of our financial assets held under resale agreements from RMB10,170.2 million in 2014 to RMB29,241.3 million in 2015, which was partially offset by a decrease in the average yield on our financial assets held under resale agreements from 4.57% in 2014 to 3.29% in 2015. The increase in the average balance of our financial assets held under resale agreements was primarily attributable to an increase in reverse repurchase transactions as we strengthened our liquidity management. The decrease in the average yield on our financial assets held under resale agreements was primarily due to a decrease in market interest rates as a result of the loose market liquidity in 2015.

Our interest income from financial assets held under resale agreements decreased significantly by 85.3% from RMB961.1 million in 2015 to RMB141.0 million in 2016 primarily due to (i) a significant decrease in the average balance of our financial assets held under resale agreements from RMB29,241.3 million in 2015 to RMB4,573.2 million in 2016 and (ii) a decrease in the average yield on our financial assets held under resale agreements from 3.29% in 2015 to 3.08% in 2016. The decrease in the average balance of our financial assets held under resale agreements was primarily because we optimized our asset structure by increasing investments in assets with relatively high yield, such as asset management plans and trust plans, and by reducing our financial assets held under resale agreements, which had relatively low yield. The decrease in the average yield on our financial assets held under resale agreements was primarily due to a decrease in market interest rates as a result of the loose market liquidity for most of 2016.

### *Interest Income from Deposits with Banks and Other Financial Institutions*

Interest income from deposits with banks and other financial institutions represented 1.8%, 1.4% and 0.6% of our interest income in 2014, 2015 and 2016, respectively.

Our interest income from deposits with banks and other financial institutions decreased by 9.6% from RMB232.9 million in 2014 to RMB210.5 million in 2015 primarily due to a decrease in the average yield on our deposits with banks and other financial institutions from 3.59% in 2014 to 3.21% in 2015, which was partially offset by a 1.2% increase in the average balance of our deposits with banks and other financial institutions from RMB6,482.7 million in 2014 to RMB6,558.9 million in 2015. The decrease in the average yield on our deposits with banks and other financial institutions was primarily attributable to a decrease in market interest rates as a result of lower PBoC benchmark interest rates and improved market liquidity in 2015.

Our interest income from deposits with banks and other financial institutions decreased by 52.0% from RMB210.5 million in 2015 to RMB101.0 million in 2016 primarily due to (i) a 29.3% decrease in the average balance of our deposits with banks and other financial institutions from RMB6,558.9 million in 2015 to RMB4,635.7 million in 2016 and (ii) a decrease in the average yield on our deposits with banks and other financial institutions from 3.21% in 2015 to 2.18% in 2016. The decrease in the average balance of our deposits with banks and other financial institutions was primarily because we optimized our assets structure by increasing loans and investments in assets with relatively high yield,

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such as asset management plans and trust plans, and by reducing our deposits with banks and other financial institutions, which had relatively low yield. The decrease in the average yield on our deposits with banks and other financial institutions was primarily attributable to a continued decrease in market interest rates as a result of loose market liquidity for most of 2016.

### *Interest Income from Deposits with the Central Bank*

Our interest-earning deposits with the central bank consist primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBoC, calculated as a percentage of the balance of our overall deposits from customers. Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves, which we maintain for clearing purposes.

Interest income from deposits with the central bank represented 3.9%, 3.3% and 3.2% of our interest income in 2014, 2015 and 2016, respectively.

Our interest income from deposits with the central bank increased by 4.6% from RMB500.4 million in 2014 to RMB523.4 million in 2015 primarily due to (i) a 2.2% increase in the average balance of our deposits with the central bank from RMB35,514.7 million in 2014 to RMB36,283.5 million in 2015 and (ii) an increase in the average yield on our deposits with the central bank from 1.41% in 2014 to 1.44% in 2015. The increase in the average balance of our deposits with the central bank was primarily attributable to an increase in our deposits from customers. The increase in the average yield on our deposits with the central bank was primarily because we decreased the proportion of our surplus deposit reserves to improve our capital usage efficiency while ensuring our liquidity.

Our interest income from deposits with the central bank increased by 4.3% from RMB523.4 million in 2015 to RMB546.1 million in 2016 primarily due to (i) a 1.8% increase in the average balance of our deposits with the central bank from RMB36,283.5 million in 2015 to RMB36,940.6 million in 2016 and (ii) an increase in the average yield on our deposits with the central bank from 1.44% in 2015 to 1.48% in 2016. The increase in the average balance of our deposits with the central bank was primarily attributable to an increase in our deposits from customers. The increase in the average yield on our deposits with the central bank was primarily because we decreased the proportion of our surplus deposit reserves to improve our capital usage efficiency while ensuring our liquidity.

### *Placements with Banks and Other Financial Institutions*

We obtained the qualification to conduct interbank placements in August 2016. Our interest income from placements with banks and other financial institutions was RMB43.5 million in 2016.

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### Interest Expense

The following table sets forth a breakdown of our interest expense for the periods indicated.

	For the Period from January 1, 2014 to December 22, 2014		For the Period from December 23, 2014 to December 31, 2014		For the years ended December 31,					
	Amount	% of total	Amount	% of total	2014		2015		2016	
					Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)										
<b>Interest expense on</b>										
Deposits from customers..	3,100.8	87.2%	158.2	82.8%	3,259.0	86.9%	3,530.6	71.4%	3,394.3	58.5%
Deposits from banks and other financial institutions.....	354.7	10.0%	26.3	13.8%	381.0	10.2%	1,121.1	22.7%	1,161.2	20.0%
Financial assets sold under repurchase agreements.....	72.8	2.0%	5.8	3.0%	78.6	2.1%	254.7	5.2%	476.5	8.2%
Debt securities issued .....	—	—	—	—	—	—	8.2	0.2%	727.9	12.5%
Borrowings from central bank .....	29.3	0.8%	0.7	0.4%	30.0	0.8%	30.6	0.5%	28.0	0.5%
Placements from banks and other financial institutions.....	—	—	—	—	—	—	—	—	13.9	0.3%
<b>Total interest expense.....</b>	<b>3,557.6</b>	<b>100.0%</b>	<b>191.0</b>	<b>100.0%</b>	<b>3,748.6</b>	<b>100.0%</b>	<b>4,945.2</b>	<b>100.0%</b>	<b>5,801.8</b>	<b>100.0%</b>

Our interest expense increased by 31.9% from RMB3,748.6 million in 2014 to RMB4,945.2 million in 2015 primarily due to a 43.1% increase in the average balance of interest-bearing liabilities from RMB161,330.2 million in 2014 to RMB230,787.4 million in 2015, which was partially offset by a decrease in the average cost on interest-bearing liabilities from 2.32% in 2014 to 2.14% in 2015. The increase in the average balance of interest-bearing liabilities was primarily attributable to the increases in the average balance of deposits from customers, banks and other financial institutions and financial assets sold under repurchase agreements, which were in line with our business growth. The decrease in the average cost on interest-bearing liabilities was primarily attributable to consecutive interest rate cuts by the PBoC in 2015.

Our interest expense increased by 17.3% from RMB4,945.2 million in 2015 to RMB5,801.8 million in 2016 primarily due to a 34.1% increase in the average balance of interest-bearing liabilities from RMB230,787.4 million in 2015 to RMB309,458.7 million in 2016, which was partially offset by a decrease in the average cost on interest-bearing liabilities from 2.14% in 2015 to 1.87% in 2016. The increase in the average balance of interest-bearing liabilities was primarily attributable to the increases in the average balance of deposits from deposits from customers and debt securities issued, which were in line with our business growth. The decrease in the average cost on interest-bearing liabilities was primarily attributable to the impact of consecutive interest rate cuts by the PBoC in 2015.

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### *Interest Expense on Deposits From Customers*

During the Track Record Period, deposits from customers were our primary source of funding. Our interest expense on deposits from customers accounted for 86.9%, 71.4% and 58.5% of our total interest expense for 2014, 2015 and 2016, respectively.

The following table sets forth the average balance, interest expense and average cost of our deposits from customers by product type for the periods indicated.

	For the Period from January 1, 2014 to December 22, 2014	For the Period from December 23, 2014 to December 31, 2014	For the years ended December 31,								
			2014			2015			2016		
	Interest expense	Interest expense	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
(in millions of RMB, except percentages)											
<b>Corporate deposits</b>											
Demand .....	428.3	21.1	44,917.7	449.4	1.00%	52,707.7	414.8	0.79%	72,610.6	491.5	0.68%
Time <sup>(1)</sup> .....	728.7	36.6	28,524.3	765.3	2.68%	47,167.9	946.8	2.01%	57,906.6	991.7	1.71%
<b>Subtotal .....</b>	<b>1,157.0</b>	<b>57.7</b>	<b>73,442.0</b>	<b>1,214.7</b>	<b>1.65%</b>	<b>99,875.6</b>	<b>1,361.6</b>	<b>1.36%</b>	<b>130,517.2</b>	<b>1,483.2</b>	<b>1.14%</b>
<b>Personal deposits</b>											
Demand .....	111.1	3.8	20,677.2	114.9	0.56%	21,071.2	96.1	0.46%	25,798.6	103.3	0.40%
Time <sup>(1)</sup> .....	1,832.7	96.7	55,848.9	1,929.4	3.45%	66,474.1	2,072.9	3.12%	71,649.0	1,807.8	2.52%
<b>Subtotal .....</b>	<b>1,943.8</b>	<b>100.5</b>	<b>76,526.1</b>	<b>2,044.3</b>	<b>2.67%</b>	<b>87,545.3</b>	<b>2,169.0</b>	<b>2.48%</b>	<b>97,447.6</b>	<b>1,911.1</b>	<b>1.96%</b>
<b>Total deposits from customers .....</b>	<b>3,100.8</b>	<b>158.2</b>	<b>149,968.1</b>	<b>3,259.0</b>	<b>2.17%</b>	<b>187,420.9</b>	<b>3,530.6</b>	<b>1.88%</b>	<b>227,964.8</b>	<b>3,394.3</b>	<b>1.49%</b>

*Note:*

- (1) Includes principal-protected wealth management products, which we classify as deposits from customers pursuant to regulatory rules.

Our interest expense on deposits from customers increased by 8.3% from RMB3,259.0 million in 2014 to RMB3,530.6 million in 2015 primarily due to a 25.0% increase in our average balance of deposits from customers from RMB149,968.1 million in 2014 to RMB187,420.9 million in 2015, which was partially offset by a decrease in our average cost on deposits from customers from 2.17% in 2014 to 1.88% in 2015. The increase in our average balance of deposits from customers was primarily due to our efforts to grow our corporate banking and personal banking businesses after the Reorganization. The decrease in our average cost on deposits from customers was primarily due to consecutive interest rate cuts by the PBoC in 2015.

Our interest expense on deposits from customers decreased by 3.9% from RMB3,530.6 million in 2015 to RMB3,394.3 million in 2016 primarily due to a decrease in our average cost on deposits from customers from 1.88% in 2015 to 1.49% in 2016, which was partially offset by a 21.6% increase in our average balance of deposits from customers from RMB187,420.9 million in 2015 to RMB227,964.8 million in 2016. The decrease in our average cost on deposits from customers was primarily due to the impact of consecutive interest rate cuts by the PBoC in 2015. The increase in our average balance of deposits from customers was primarily due to our continued marketing efforts to grow our corporate banking and personal banking businesses.

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### *Interest Expense on Deposits from Banks and Other Financial Institutions*

Our interest expense on deposits from banks and other financial institutions accounted for 10.2%, 22.7% and 20.0% of our interest expense in 2014, 2015 and 2016, respectively.

Our interest expense on deposits from banks and other financial institutions increased significantly from RMB381.0 million in 2014 to RMB1,121.1 million in 2015 primarily due to a significant increase in our average balance of deposits from banks and other financial institutions from RMB8,067.1 million in 2014 to RMB31,915.2 million in 2015, which was partially offset by a decrease in our average cost of deposits from banks and other financial institutions from 4.72% in 2014 to 3.51% in 2015. The increase in our average balance of deposits from banks and other financial institutions was primarily because we diversified our funding sources by increasing financing from the interbank market. The decrease in our average cost of deposits from banks and other financial institutions was primarily due to a continued decrease in market interest rates as a result of loose market liquidity in 2015.

Our interest expense on deposits from banks and other financial institutions increased by 3.6% from RMB1,121.1 million in 2015 to RMB1,161.2 million in 2016 primarily due to a 10.9% increase in our average balance of deposits from banks and other financial institutions from RMB31,915.2 million in 2015 to RMB35,388.2 million in 2016, which was partially offset by a decrease in our average cost of deposits from banks and other financial institutions from 3.51% in 2015 to 3.28% in 2016. The increase in our average balance of deposits from banks and other financial institutions was primarily due to our continued efforts to diversify our funding sources by increasing financing from the interbank market. The decrease in our average cost of deposits from banks and other financial institutions was primarily due to a continued decrease in market interest rates as a result of loose market liquidity for most of 2016.

### *Interest Expense on Financial Assets Sold under Repurchase Agreements*

Our interest expense on financial assets sold under repurchase agreements represented 2.1%, 5.2% and 8.2% of our interest expense in 2014, 2015 and 2016, respectively.

Our interest expense on financial assets sold under repurchase agreements increased significantly from RMB78.6 million in 2014 to RMB254.7 million in 2015 primarily due to a significant increase in our average balance of financial assets sold under repurchase agreements from RMB2,361.1 million in 2014 to RMB10,318.7 million in 2015, which was partially offset by a decrease in our average cost of financial assets sold under repurchase agreements from 3.33% in 2014 to 2.47% in 2015. The increase in our average balance of financial assets sold under repurchase agreements was primarily because we diversified our funding sources by increasing financing from the interbank market, which had relatively low cost. The decrease in our average cost of financial assets sold under repurchase agreements was primarily due to a decrease in market interest rates as a result of improved market liquidity in 2015.

Our interest expense on financial assets sold under repurchase agreements increased by 87.1% from RMB254.7 million in 2015 to RMB476.5 million in 2016 primarily due to a significant increase in our average balance of financial assets sold under repurchase agreements from RMB10,318.7 million in 2015 to RMB20,841.7 million in 2016, which was partially offset by a decrease in our average cost of financial assets sold under repurchase agreements from 2.47% in 2015 to 2.29% in 2016. The increase in our average balance of financial assets sold under repurchase agreements was primarily due to our efforts to diversify our funding sources by increasing financing from the interbank market. The decrease in our average cost of financial assets sold under repurchase agreements was primarily due to the continued decrease in market interest rates as a result of loose market liquidity for most of 2016.

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### *Interest Expense on Debt Securities Issued*

We did not issue any debt securities in 2014. Interest expense on debt securities issued accounted for 0.2% and 12.5% of our interest expense in 2015 and 2016, respectively. Please see “Financial Information — Capital Resources — Debt — Debt Securities Issued”.

Our interest expense on debt securities was RMB8.2 million in 2015, which was primarily because we obtained the qualification to issue negotiable certificates of deposit in the fourth quarter of 2015, and issued a number of negotiable certificates of deposit with an aggregate nominal amount of RMB3,000.0 million in December 2015.

Our interest expense on debt securities issued increased significantly from RMB8.2 million in 2015 to RMB727.9 million in 2016 primarily due to a significant increase in our average balance of debt securities issued from RMB235.9 million in 2015 to RMB23,857.7 million in 2016, which was partially offset by a decrease in our average cost of debt securities issued from 3.48% in 2015 to 3.05% in 2016. The increase in our average balance of debt securities issued was primarily because we issued a number of negotiable certificates of deposit with an aggregate nominal amount of RMB147,670.0 million in 2016, which was in line with the rapid development of the negotiable certificates of deposit market in 2016. The decrease in our average cost of debt securities issued was primarily due to a decrease in market interest rates as a result of the loose market liquidity for the most part of 2016.

### *Interest Expense on Borrowings from the Central Bank*

Our interest expense on borrowings from the central bank represented 0.8%, 0.6% and 0.5% of our interest expenses in 2014, 2015 and 2016, respectively. Our interest expense on borrowings from the central bank remained stable and amounted to RMB30.0 million, RMB30.6 million and RMB28.0 million in 2014, 2015 and 2016, respectively.

### *Placements from Banks and Other Financial Institutions*

We obtained the qualification to conduct interbank placements in August 2016. Our interest expense on placements from banks and other financial institutions was RMB13.9 million in 2016.

### *Net Interest Spread and Net Interest Margin*

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

Our net interest spread decreased from 4.71% in 2014 to 3.68% in 2015 primarily because our average yield on interest-earning assets decreased by 121 basis points from 7.03% in 2014 to 5.82% in 2015 while our average cost on interest-bearing liabilities decreased by 18 basis points from 2.32% in 2014 to 2.14% in 2015. This was primarily due to (i) consecutive interest rate cuts by the PBoC in 2015, (ii) an increase in the proportion of loans to large enterprises and residential mortgage loans, which generally had relatively low interest rates, and (iii) increased investments in investment securities and other financial assets as a percentage of our total assets. Our net interest margin decreased from 4.97% in 2014 to 3.96% in 2015 primarily because the growth in our average balance of interest-earning assets outpaced the growth in our net interest income.

Our net interest spread further decreased from 3.68% in 2015 to 3.07% in 2016 primarily because our average yield on interest-earning assets decreased by 88 basis points from 5.82% in 2015 to 4.94% in 2016 while our average cost on interest-bearing liabilities decreased by 27 basis points from 2.14% in 2015 to 1.87% in 2016. The slower pace of the growth of our net interest income in 2016 was

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primarily due to (i) the impact caused by consecutive interest rate cuts by the PBoC in 2015 and increased market competition as a result of the interest rate liberalization, (ii) a continued increase in the proportion of loans to large enterprises and residential mortgage loans, which generally had relatively low interest rates, and (iii) increased investments in investment securities and other financial assets as a percentage of our total assets. Our net interest margin decreased from 3.96% in 2015 to 3.26% in 2016 primarily because the growth in our average balance of interest-earning assets outpaced the growth in our net interest income.

### Net Fee and Commission Income

Net fee and commission income represented 1.0%, 1.2% and 3.8% of our total operating income for the years ended December 31, 2014, 2015 and 2016, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

	For the Period from January 1, 2014 to December 22, 2014	For the Period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
<b>Fee and commission income</b>					
Settlement and clearing service fees .....	69.8	2.7	72.5	75.9	61.4
Agency service fees and underwriting fees .....	32.6	2.1	34.7	43.0	74.7
Bank card service fees.....	26.7	0.9	27.6	29.4	39.0
Wealth management business fees.....	6.0	0.5	6.5	14.3	232.8
Advisory and consulting fees.....	6.3	0.4	6.7	9.7	27.8
Acceptance and guarantee service fees .....	2.3	—	2.3	9.2	48.5
Custodial service fees.....	0.9	—	0.9	1.2	26.1
<b>Subtotal.....</b>	<b>144.6</b>	<b>6.6</b>	<b>151.2</b>	<b>182.7</b>	<b>510.3</b>
<b>Fee and commission expenses.....</b>	<b>(52.3)</b>	<b>(2.2)</b>	<b>(54.5)</b>	<b>(47.8)</b>	<b>(61.2)</b>
<b>Net fee and commission income.....</b>	<b>92.3</b>	<b>4.4</b>	<b>96.7</b>	<b>134.9</b>	<b>449.1</b>

Our net fee and commission income increased by 39.5% from RMB96.7 million in 2014 to RMB134.9 million in 2015 primarily due to a 20.8% increase in our fee and commission income from RMB151.2 million in 2014 to RMB182.7 million in 2015, and a 12.3% decrease in fee and commission expenses from RMB54.5 million to RMB47.8 million in 2015.

Our net fee and commission income further increased significantly to RMB449.1 million in 2016 primarily due to a significant increase in our fee and commission income from RMB182.7 million in 2015 to RMB510.3 million in 2016, which was partially offset by a 28.0% increase in fee and commission expenses from RMB47.8 million in 2015 to RMB61.2 million in 2016.

### Fee and Commission Income

Our fee and commission income increased by 20.8% from RMB151.2 million in 2014 to RMB182.7 million in 2015 primarily due to our strategy to grow our fee and commission-based services after the Reorganization.

Our fee and commission income further increased significantly to RMB510.3 million in 2016 primarily due to our effort to develop our wealth management business.

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### *Settlement and Clearing Service Fees*

Settlement and clearing service 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 and clearing service fees increased by 4.7% from RMB72.5 million in 2014 to RMB75.9 million in 2015 primarily due to an increase in transaction volume as a result of an increase in the number of customers in 2015. Our settlement and clearing service fees decreased by 19.1% from RMB75.9 million in 2015 to RMB61.4 million in 2016 primarily due to a decrease in transaction volume mainly because our customers increasingly shifted towards internet banking services, whose fees were usually lower or waived.

### *Agency Service Fees and Underwriting Fees*

Agency service fees and underwriting fees consist primarily of fees earned from our agency sales of insurance, fee collection and payment services, entrusted loans and underwriting services. Our agency service fees increased by 23.9% from RMB34.7 million in 2014 to RMB43.0 million in 2015 primarily due to an increase in transaction volume, which was mainly a result of an expansion of our relevant businesses and the commencement of our payment services for utility bills and entrusted loans since 2015. Our agency service fees and underwriting fees increased by 73.7% to RMB74.7 million in 2016 primarily due to an increase in transaction volume and the commencement of certain new services since 2016 such as insurance sales and precious metal transactions.

### *Bank Card Service Fees*

Bank card service fees consist primarily of interbank ATM withdrawal fees and transaction fees from merchants and customers on the use of our bank cards. Our bank card service fees increased by 6.5% from RMB27.6 million in 2014 to RMB29.4 million in 2015, and further increased by 32.7% to RMB39.0 million in 2016 primarily due to a continued increase in the number of our active debit card holders and an increase in transaction volume.

### *Wealth Management Business Fees*

Wealth management business fees consist primarily of channel fees and commissions received from wealth management services provided to our customers. Our wealth management business fees increased significantly from RMB6.5 million in 2014 to RMB14.3 million in 2015, and further increased significantly to RMB232.8 million in 2016, primarily due to the continued expansion of our wealth management business.

### *Advisory and Consulting Fees*

Advisory and consulting fees consist primarily of fees we receive for providing financial consulting services to our corporate banking customers. Our advisory and consulting fees increased by 44.8% from RMB6.7 million in 2014 to RMB9.7 million in 2015 primarily due to our efforts to grow our advisory and consulting businesses by establishing the Investment Banking Department at our head office after the Reorganization. Our consulting and advisory fees increased significantly to RMB27.8 million in 2016 primarily due to our continued efforts to expand our advisory and consulting businesses.



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### *Acceptance and Guarantee Service fees*

Acceptance and guarantee service fees consist primarily of fees earned from issuing bank acceptances, letters of guarantee and letters of credit to our customers. Our acceptance and guarantee service fees increased significantly from RMB2.3 million in 2014 to RMB9.2 million in 2015 primarily due to an increase in the number of bank acceptances and letters of guarantee we issued. Our acceptance and guarantee service fees increased significantly to RMB48.5 million in 2016 primarily due to the growth of our supply chain finance business and trade finance business in 2016.

### *Custodial Service Fees*

Custodial service fees consist primarily of the fees earned for the custodial services we provided to private equity funds. Our custodial service fees were RMB0.9 million and RMB1.2 million in 2014 and 2015, respectively. Our custodial service fees increased significantly to RMB26.1 million in 2016 primarily because our head office obtained the qualification to conduct custodial services for private equity funds in late 2015.

### *Fee and Commission Expenses*

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 12.3% from RMB54.5 million in 2014 to RMB47.8 million in 2015 primarily because we integrated and streamlined the fee and commission based services offered by the Thirteen City Commercial Banks previously and, as a result, reduced the repetitive service costs and inter-branch charges. Our fee and commission expenses increased by 28.0% from RMB47.8 million in 2015 to RMB61.2 million in 2016 in line with the expansion of our fee and commission based services in 2016.

### **Net Trading Gains/(Losses)**

Our net trading gains were RMB142.7 million in 2014 and remained stable at RMB142.4 million in 2015. We incurred net trading losses of RMB71.7 million in 2016 primarily due to a decrease in fair value of financial assets held for trading of RMB137.3 million as a result of the relatively weak debt securities market in 2016, which was partially offset by net gains of RMB57.3 million from disposal of certain financial assets held for trading in 2016.

### **Net Gains/(Losses) Arising from Investment Securities**

We realized net gains arising from investment securities of RMB40.5 million in 2014 primarily because we disposed of certain debt securities to achieve relatively high return under the positive market environment in 2014. We incurred net losses arising from investment securities of RMB0.6 million in 2015 primarily because we disposed of few debt securities under the stable market environment in 2015. We realized net gains arising from investment securities of RMB9.1 million in 2016 primarily due to our net gains on the disposal of certain available-for-sale financial assets in 2016.

### **Other Components of Our Operating Income**

Other components of our operating income consisted primarily of government grants, rental income, net gains on disposal of property and equipment. Our other components of our operating income increased by 31.7% from RMB171.2 million in 2014 to RMB225.5 million in 2015 primarily

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due to a significant increase in government grants from RMB54.5 million in 2014 to RMB153.0 million in 2015. The government grants we received in 2015 related to government policies to encourage the extension of credit to small and micro enterprises and agriculture-related industries. Other components of our operating income decreased by 5.1% to RMB213.9 million in 2016 primarily due to a decrease in the government grants we received in 2016 as a result of a minor government policy adjustment in 2016.

### Operating Expenses

The following table sets forth the principal components of our total operating expenses for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
Staff costs .....	1,654.0	259.3	1,913.3	2,409.2	2,684.5
Other general and administrative expenses <sup>(1)</sup> .....	832.7	230.4	1,063.1	1,343.4	1,508.8
Business tax and surcharges .....	599.7	26.9	626.6	730.0	271.8
Depreciation and amortization .....	414.3	14.5	428.8	637.8	671.2
<b>Total operating expenses.....</b>	<b><u>3,500.7</u></b>	<b><u>531.1</u></b>	<b><u>4,031.8</u></b>	<b><u>5,120.4</u></b>	<b><u>5,136.3</u></b>

*Note:*

(1) Include office expenses, rental and property management expenses, business marketing expenses and regulatory supervision expenses, and other management expenses.

Our operating expenses increased by 27.0% from RMB4,031.8 million in 2014 to RMB5,120.4 million in 2015 primarily because, after the Reorganization, we (i) increased the number of our employees in line with our business expansion, (ii) incurred higher depreciation and amortization expenses for our information technology systems, such as the integrated financial reporting system and risk management system we purchased to serve our head office, branches and sub-branches, and (iii) expanded our branch network in order to optimize our geographic coverage. Our operating expenses increased slightly to RMB5,136.3 million in 2016.

Our cost-to-income ratio (excluding business tax and surcharges) was 35.77%, 39.73% and 41.21% in 2014, 2015 and 2016, respectively. The increases in our cost-to-income ratio from 2014 to 2016 were primarily because our operating expenses increased at a higher rate than the increases in our operating income, which were primarily due to increases in our staff costs, the purchase of our information technology system and the expansion of our network.

### Staff Costs

During the Track Record Period, staff costs were the largest component of our operating expenses, representing 47.5%, 47.1% and 52.3% of our total operating expenses in 2014, 2015 and 2016, respectively.

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

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
Salaries, bonuses and allowances.....	1,306.4	240.7	1,547.1	1,896.8	1,983.5
Social insurance and annuity .....	172.7	0.6	173.3	235.6	283.6
Staff welfare .....	57.4	7.9	65.3	91.3	186.0
Supplementary retirement benefits .....	14.0	—	14.0	3.6	4.6
Housing allowances .....	60.4	0.7	61.1	78.8	102.2
Employee education expenses and labor union expenses.....	28.4	8.4	36.8	85.6	87.7
Others <sup>(1)</sup> .....	14.7	1.0	15.7	17.5	36.9
<b>Total staff costs.....</b>	<b>1,654.0</b>	<b>259.3</b>	<b>1,913.3</b>	<b>2,409.2</b>	<b>2,684.5</b>

*Note:*

(1) Consist primarily of the fees for dispatched employees.

Our staff costs increased by 25.9% from RMB1,913.3 million in 2014 to RMB2,409.2 million in 2015 primarily due to increases in salaries, bonuses and allowance, social insurance and annuity, staff welfare, employee education expenses and labor union expenses, which were primarily due to an increase in the number of our employees. Our staff costs increased by 11.4% to RMB2,684.5 million in 2016 primarily due to increases in salaries, bonuses and allowances, social insurance and annuity, staff welfare and housing allowance, which were in line with the increase in the number of our employees.

Salaries, bonuses and allowances were the largest component of our staff costs, representing 80.9%, 78.7% and 73.9% of our total staff costs in 2014, 2015 and 2016, respectively. Our salaries, bonuses and allowances increased by 22.6% from RMB1,547.1 million in 2014 to RMB1,896.8 million in 2015 primarily because we recruited a number of employees for various departments at our head office and newly opened branches or sub-branches. Our salaries, bonuses and allowances increased by 4.6% to RMB1,983.5 million in 2016 primarily due to a continued increase in the number of our employees as we expanded our operations at the head office and opened certain new branches, such as Jiaozuo, Jiyuan and Luoyang branches.

### ***Other General and Administrative Expenses***

Our other general operating and administrative expenses primarily consist of office expenses, rental and property management expenses, business marketing expenses, security expenses and regulatory supervision expenses, and other management expenses. Our other general operating and administrative expenses increased by 26.4% from RMB1,063.1 million in 2014 to RMB1,343.4 million in 2015, and further increased by 12.3% to RMB1,508.8 million in 2016 primarily due to (i) increases in office expenses and management expenses as we established various new departments in our head office and increases in our network of outlets, and (ii) increases in deposit insurance fees.

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### *Business Taxes and Surcharges*

Our business tax and surcharges increased by 16.5% from RMB626.6 million in 2014 to RMB730.0 million in 2015 primarily due to an increase in our taxable income. Our business tax and surcharges decreased by 62.8% to RMB271.8 million in 2016 primarily because business tax was replaced by the VAT in May 2016.

On March 23, 2016, the MOF issued “*Notice of Overall Implementation of Pilot Program for Value Added Tax Replacing Business Tax*” (Caishui [2016] No. 36). Pursuant to the Notice, starting May 1, 2016, VAT, instead of business tax, applies to certain pilot industries, including the financial industry. For banks, VAT is levied at the rate of 6%. Please also see the section headed “Risk Factors — Risks Relating to the PRC Banking Industry — Further development of interest rate liberalization, PBoC’s adjustments to the benchmark interest rate, deposit insurance program and other regulatory changes in the PRC’s banking industry may materially and adversely affect our results of operations”.

### *Depreciation and Amortization*

Our depreciation and amortization consist primarily of depreciation of our property and equipment and amortization of land use rights, software and other intangible assets. Our depreciation and amortization increased by 48.7% from RMB428.8 million in 2014 to RMB637.8 million in 2015 primarily due to (i) an increase in the fair value of our property and equipment after we conducted an evaluation of such property and equipment after the Reorganization, (ii) an increase in depreciation charges for the information technology system we purchased upon the establishment of our head office, and (iii) an increase in depreciation charges for the properties and equipment of our new branches and sub-branches. Our depreciation and amortization increased by 5.2% to RMB671.2 million in 2016 primarily due to an increase in depreciation charges for our property and equipment as we upgraded our information technology system and expanded our operations.

### **Impairment Losses/(Reversals) on Assets**

The following table sets forth the principal components of our impairment losses/(reversals) on assets for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
<b>Impairment losses/(reversals) on assets:</b>					
Loans and advances to customers .....	1,541.3	(122.0)	1,419.3	1,637.1	1,994.6
Debt securities classified as receivables .....	284.5	11.0	295.5	186.1	76.6
Others <sup>(1)</sup> .....	143.5	58.9	202.4	63.9	175.6
<b>Total .....</b>	<b>1,969.3</b>	<b>(52.1)</b>	<b>1,917.2</b>	<b>1,887.1</b>	<b>2,246.8</b>

*Note:*

(1) Consist primarily of impairment losses on other receivables and repossessed assets.

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Impairment losses on assets decreased by 1.6% from RMB1,917.2 million in 2014 to RMB1,887.1 million in 2015 primarily due to (i) a 37.0% decrease in impairment losses on debt securities classified as receivables from RMB295.5 million in 2014 to RMB186.1 million in 2015 and (ii) a 68.4% decrease in impairment losses on other assets from RMB202.4 million in 2014 to RMB63.9 million in 2015, which was partially offset by a 15.3% increase in impairment losses on loans and advances to customers from RMB1,419.3 million in 2014 to RMB1,637.1 million in 2015. Impairment losses on assets increased by 19.1% from RMB1,887.1 million in 2015 to RMB2,246.8 million in 2016 primarily due to (i) a 21.8% increase in impairment losses on loans and advances to customers from RMB1,637.1 million in 2015 to RMB1,994.6 million in 2016, (ii) an increase in impairment losses on other assets from RMB63.9 million in 2015 to RMB175.6 million in 2016, which was partially offset by a decrease in impairment losses on debt securities classified as receivables from RMB186.1 million in 2015 to RMB76.6 million in 2016.

Impairment losses on loans and advances to customers increased by 15.3% from RMB1,419.3 million in 2014 to RMB1,637.1 million in 2015, and further increased by 21.8% to RMB1,994.6 million in 2016, primarily due to (i) an increase in our loans and advances to customers and (ii) more prudent provision measures as we strengthened our risk control. For details on changes in our allowance for loan losses, please see “Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers”.

Impairment losses on debt securities classified as receivables decreased by 37.0% from RMB295.5 million in 2014 to RMB186.1 million in 2015, and further decreased by 58.8% to RMB76.6 million in 2016, primarily due to increases in the quality of our debt securities classified as receivables from 2014 to 2016.

Impairment losses on other assets decreased by 68.4% from RMB202.4 million in 2014 to RMB63.9 million in 2015 primarily due to an increase in the quality of our other receivables and repossessed assets. Impairment losses on other assets increased significantly from RMB63.9 million in 2015 to RMB175.6 million in 2016 primarily attributable to the impairment losses for other long-aged receivables.

### Income Tax

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit/(loss) before tax and our actual income tax for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
<b>Profit/(loss) before tax</b> .....	<b>3,615.5</b>	<b>(41.8)</b>	<b>3,573.7</b>	<b>4,042.8</b>	<b>4,420.6</b>
Income tax calculated at applicable statutory tax rate of 25% .....	(903.9)	10.5	(893.4)	(1,010.7)	(1,105.2)
Non-deductible expenses .....	(7.7)	(0.3)	(8.0)	(19.5)	(25.1)
Non-taxable income <sup>(1)</sup> .....	8.7	1.0	9.7	15.7	97.1
Current period/year losses for which no deferred tax assets recognized .....	(11.9)	(1.8)	(13.7)	(15.9)	(27.3)
<b>Income tax</b> .....	<b>(914.8)</b>	<b>9.4</b>	<b>(905.4)</b>	<b>(1,030.4)</b>	<b>(1,060.5)</b>

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## FINANCIAL INFORMATION

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*Note:*

- (1) Non-taxable income mainly represents interest income from the PRC government bonds, which is income tax free in accordance with the PRC tax regulations.

Our income tax expenses increased by 13.8% from RMB905.4 million in 2014 to RMB1,030.4 million in 2015, and further increased by 2.9% to RMB1,060.5 million in 2016, primarily due to increases in profit before tax in 2015 and 2016 and the increase in our non-taxable income in 2016 as a result of our increased investment in debt securities issued by the PRC government. Our effective income tax rate was 25.3%, 25.5% and 24.0% in 2014, 2015 and 2016, respectively.

The following table sets forth the components of our income tax expenses for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
			(in millions of RMB)		
Current income tax - PRC enterprise income tax ...	(1,179.9)	(0.8)	(1,180.7)	(1,346.2)	(1,345.5)
Deferred income tax .....	<u>265.1</u>	<u>10.2</u>	<u>275.3</u>	<u>315.8</u>	<u>285.0</u>
<b>Total income tax .....</b>	<b><u>(914.8)</u></b>	<b><u>9.4</u></b>	<b><u>(905.4)</u></b>	<b><u>(1,030.4)</u></b>	<b><u>(1,060.5)</u></b>

### Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 12.9% from RMB2,668.3 million in 2014 to RMB3,012.4 million in 2015, and further increased by 11.5% to RMB3,360.1 million in 2016.

# FINANCIAL INFORMATION

## SUMMARY OF SEGMENT OPERATING RESULTS

### Summary Business Segment Information

We have three principal business segments: corporate banking, retail banking and financial markets business. Please see “Business — Our Principal Business Activities”. The following table sets forth our operating results for each of our principal segments for the periods indicated.

	For the period from January 1, 2014 to				For the period from December 23, 2014 to				For the years ended December 31,																	
	December 22, 2014		December 31, 2014		December 23, 2014		December 31, 2014		2015		2016															
	Corporate banking	Retail banking	Financial markets	Others <sup>(1)</sup>	Total	Corporate banking	Retail banking	Financial markets	Others <sup>(1)</sup>	Total	Corporate banking	Retail banking	Financial markets	Others <sup>(1)</sup>	Total											
External net interest income/(expense) <sup>(2)</sup> .....	7,581.5	(53.1)	1,207.3	—	8,735.7	138.9	(31.8)	226.1	—	333.2	7,720.4	(84.9)	1,433.4	—	9,068.9	7,999.5	204.3	2,344.3	—	10,548.1	8,497.4	637.0	2,068.9	—	11,203.3	
Internal net interest (expense)/income <sup>(3)</sup> .....	(1,545.9)	2,072.8	(526.9)	—	(39.1)	52.4	(13.3)	—	—	(1,585.0)	2,125.2	(540.2)	—	—	(1,478.3)	2,296.0	(817.7)	—	—	(1,616.8)	2,051.4	(434.6)	—	—	—	
<b>Net interest income</b> .....	<b>6,035.6</b>	<b>2,019.7</b>	<b>680.4</b>	<b>—</b>	<b>8,735.7</b>	<b>99.8</b>	<b>20.6</b>	<b>212.8</b>	<b>—</b>	<b>333.2</b>	<b>6,135.4</b>	<b>2,040.3</b>	<b>893.2</b>	<b>—</b>	<b>9,068.9</b>	<b>6,521.2</b>	<b>2,500.3</b>	<b>1,526.6</b>	<b>—</b>	<b>10,548.1</b>	<b>6,880.6</b>	<b>2,688.4</b>	<b>1,634.3</b>	<b>—</b>	<b>11,203.3</b>	
Net fee and commission income/(expense) .....	108.4	(16.1)	—	—	92.3	5.3	(0.9)	—	—	4.4	113.7	(17.0)	—	—	96.7	101.7	33.2	—	—	134.9	372.3	76.8	—	—	449.1	
Net trading gains/(losses) .....	—	—	133.9	—	133.9	—	—	8.8	—	8.8	—	—	142.7	—	142.7	—	—	142.4	—	—	—	—	—	—	(79.9)	8.2
Net gains/(losses) arising from investment securities .....	—	—	2.8	—	2.8	—	—	37.7	—	37.7	—	—	40.5	—	40.5	—	—	(0.6)	—	—	—	—	—	—	9.1	
Other operating income/(expense) .....	20.1	(1.8)	(0.1)	100.1	118.3	(2.6)	(0.4)	—	55.9	52.9	17.5	(2.2)	(0.1)	156.0	171.2	2.9	4.9	0.2	217.5	225.5	8.2	2.8	0.1	202.8	213.9	
<b>Operating income</b> .....	<b>6,164.1</b>	<b>2,001.8</b>	<b>817.0</b>	<b>100.1</b>	<b>9,083.0</b>	<b>102.5</b>	<b>19.3</b>	<b>259.3</b>	<b>55.9</b>	<b>437.0</b>	<b>6,266.6</b>	<b>2,021.1</b>	<b>1,076.3</b>	<b>156.0</b>	<b>9,520.0</b>	<b>6,625.8</b>	<b>2,538.4</b>	<b>1,668.6</b>	<b>217.5</b>	<b>11,050.3</b>	<b>7,261.1</b>	<b>2,768.0</b>	<b>1,563.6</b>	<b>211.0</b>	<b>11,803.7</b>	

(In millions of RMB, except percentages)

Notes:

- (1) Consist primarily of income and expenses that are not directly attributable to any specific segment.
- (2) Consists of net interest income/(expense) from external clients or activities.
- (3) Consists of net interest income/(expense) attributable to each segment’s transactions with other segments.

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Corporate banking has historically been our primary source of income, representing 65.8%, 60.0% and 61.5% of our operating income in 2014, 2015 and 2016, respectively. Operating income from our corporate banking business increased by 5.7% from RMB6,266.6 million in 2014 to RMB6,625.8 million in 2015, and further increased by 9.6% to RMB7,261.1 million in 2016, primarily due to our efforts to develop our corporate banking business.

Operating income from our retail banking business represented 21.2%, 23.0% and 23.5% of our total operating income in 2014, 2015 and 2016, respectively. Operating income from our retail banking business increased by 25.6% from RMB2,021.1 million in 2014 to RMB2,538.4 million in 2015, and further increased by 9.0% to RMB2,768.0 million in 2016, primarily due to our efforts to develop our retail banking business. For the year ended December 31, 2016, our retail banking business incurred a loss before tax of RMB49.9 million primarily because we significantly increased the allowance for impairment losses for our personal loans in accordance with our risk management policies.

Operating income from our financial markets business represented 11.3%, 15.1% and 13.2% of our total operating income in 2014, 2015 and 2016, respectively. Operating income from our financial markets business increased by 55.0% from RMB1,076.3 million in 2014 to RMB1,668.6 million in 2015 primarily due to our efforts to expand our financial markets business after the Reorganization. Operating income from our financial markets business decreased by 6.3% to RMB1,563.6 million in 2016 primarily due to a net trading loss of RMB79.9 million mainly as a result of the significant increase in the SHIBOR since November 2016 and the tightened market liquidity, which resulted in the decrease in the fair value of our debt security investments.



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### Summary of Operating Results by Geographic Regions

In presenting information on the basis of geographic regions, operating income is gathered according to the locations of the branches or subsidiaries that generated the income. For the purpose of presentation, we categorize such information by geographic regions. The following table sets forth the total operating income of each of the geographic regions for the periods indicated.

	For the period from January 1, 2014 to December 22, 2014		For the period from December 23, 2014 to December 31, 2014		For the years ended December 31,					
					2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)										
Head office and Zhengzhou .....	—	—	—	—	—	—	1,773.5	16.0%	4,510.9	38.2%
Zhumadian .....	1,142.4	12.6%	21.7	4.9%	1,164.1	12.2%	1,407.1	12.7%	1,010.5	8.5%
Xinyang .....	854.7	9.4%	48.6	11.1%	903.3	9.5%	957.1	8.7%	753.0	6.4%
Shangqiu .....	810.3	8.9%	25.7	5.9%	836.0	8.8%	859.0	7.8%	687.2	5.8%
Nanyang .....	445.0	4.9%	65.5	15.0%	510.5	5.4%	605.1	5.5%	678.8	5.8%
Xuchang .....	877.1	9.7%	30.6	7.0%	907.7	9.5%	892.2	8.1%	647.2	5.5%
Kaifeng .....	857.2	9.4%	32.1	7.3%	889.3	9.3%	757.6	6.9%	571.7	4.8%
Luohe .....	478.3	5.3%	44.4	10.2%	522.7	5.5%	550.3	5.0%	422.4	3.6%
Zhoukou .....	715.2	7.9%	(35.1)	(8.0%)	680.1	7.1%	663.2	6.0%	421.9	3.6%
Xinxiang .....	797.9	8.8%	21.3	4.9%	819.2	8.6%	491.0	4.4%	392.7	3.3%
Hebi .....	371.0	4.1%	46.6	10.7%	417.6	4.4%	443.4	4.0%	310.8	2.6%
Sanmenxia .....	593.0	6.5%	39.5	9.0%	632.5	6.6%	482.8	4.4%	301.4	2.6%
Anyang .....	485.3	5.3%	43.2	9.9%	528.5	5.6%	383.7	3.5%	291.8	2.5%
Puyang .....	406.0	4.5%	18.5	4.2%	424.5	4.5%	380.3	3.4%	288.3	2.4%
Pingdingshan .....	—	—	7.5	1.7%	7.5	0.1%	25.1	0.2%	117.5	1.0%
Jiyuan .....	—	—	—	—	—	—	—	—	7.4	0.1%
Jiaozuo .....	—	—	—	—	—	—	—	—	5.0	0.04%
Luoyang .....	—	—	—	—	—	—	—	—	—	—
Village and Township banks .....	249.6	2.7%	26.9	6.2%	276.5	2.9%	378.9	3.4%	385.2	3.3%
<b>Total .....</b>	<b>9,083.0</b>	<b>100.0%</b>	<b>437.0</b>	<b>100.0%</b>	<b>9,520.0</b>	<b>100.0%</b>	<b>11,050.3</b>	<b>100.0%</b>	<b>11,803.7</b>	<b>100.0%</b>

We have mainly operated our businesses in Henan Province. Since our establishment in December 2014, our head office and our other operations in Zhengzhou have become the largest sources of our operating income. In 2015 and 2016, operating income from our head office and our other operations in Zhengzhou accounted for 16.0% and 38.2%, respectively, of our total operating income.

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### CASH FLOWS

The following table sets forth our cash flows for the years indicated. Please see Appendix IA — “Accountants’ Report — Combined Statement of Cash Flows” and “Appendix IB — Accountants’ Report — Consolidated Statements of Cash Flows”.

	For the period from January 1, 2014 to December 22, 2014	For the period from December 23, 2014 to December 31, 2014	For the years ended December 31,		
			2014	2015	2016
(in millions of RMB)					
Net cash generated from/(used in) operating activities .....	3,172.6	(5,954.0)	(2,781.4)	39,029.1	59,092.8
Net cash (used in)/generated from investing activities .....	(5,474.7)	227.9	(5,246.8)	(38,468.9)	(109,346.3)
Net cash (used in)/generated from financing activities .....	(854.8)	6,066.3	5,211.5	5,326.9	53,195.7
Effect of exchange rate changes on cash and cash equivalents .....	—	—	—	—	(8.3)
Net (decrease)/increase in cash and cash equivalents .....	<u>(3,156.9)</u>	<u>340.2</u>	<u>(2,816.7)</u>	<u>5,887.1</u>	<u>2,933.9</u>

### Cash Flows Generated from/(Used in) Operating Activities

Cash inflows from operating activities are primarily attributable to increases in deposits from customers, deposits from banks and other financial institutions and financial assets sold under repurchase agreements.

Cash outflows from operating activities are primarily attributable to increases in loans and advances to customers, deposits with the central bank and financial assets at fair value through profit or loss.

The increase in our deposits from customers was RMB15,048.6 million, RMB40,774.5 million and RMB39,982.4 million in 2014, 2015 and 2016, respectively. The increase in our deposits from banks and other financial institutions was RMB23,650.3 million and RMB15,569.0 million in 2015 and 2016, respectively. The decrease in our deposits from banks and other financial institutions was RMB3,529.5 million in 2014. The increase in our financial assets sold under repurchase agreements was RMB22,811.4 million and RMB2,643.0 million in 2015 and 2016, respectively. The decrease in our financial assets sold under repurchase agreements was RMB2,448.1 million in 2014.

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The increase in our loans and advances to customers amounted to RMB17,914.1 million, RMB28,805.5 million and RMB26,802.8 million in 2014, 2015 and 2016, respectively. For a discussion on increases in our loans and advances to customers from December 31, 2014 to December 31, 2016, please see “Assets and Liabilities — Assets — Loans and Advances to Customers”. The increase in our deposits with central bank was RMB7,153.6 million, RMB9,442.3 million and RMB3,687.9 million in 2014, 2015 and 2016, respectively.

The decrease in our financial assets at fair value through profit or loss was RMB379.6 million and RMB12,857.2 million in 2014 and 2016, respectively. The increase in our financial assets at fair value through profit or loss was RMB14,106.7 million in 2015.

Primarily as a result of the foregoing, our net cash used in operating activities was RMB2,781.4 million in 2014. Our net cash generated from operating activities was RMB39,029.1 million RMB59,092.8 million in 2015 and 2016, respectively.

### **Cash Flows (Used in)/Generated from Investing Activities**

Cash inflows from investing activities are primarily attributable to proceeds from the disposal and redemption of investments. We received cash from the disposal and redemption of investments of RMB51,992.2 million, RMB152,109.4 million and RMB269,161.1 million in 2014, 2015 and 2016, respectively.

Our cash outflows from investing activities are primarily attributable to payments on acquisition of investments. We used cash of RMB56,801.5 million, RMB190,093.1 million and RMB377,248.0 million in 2014, 2015 and 2016, respectively, to purchase investments.

### **Cash Flows (Used in)/Generated from Financing Activities**

Our cash inflows from financing activities are primarily attributable to proceeds from capital contribution by equity shareholders and proceeds from issued debt securities. Our proceeds from capital contribution by equity shareholders was RMB6,073.1 million, RMB2,324.6 million and nil in 2014, 2015 and 2016, respectively. Our proceeds from issued debt securities was nil, RMB2,970.9 million and RMB57,158.5 million in 2014, 2015 and 2016, respectively.

Our cash outflows from financing activities are primarily attributable to interest paid on debt securities issued and dividends paid. Our interest paid on debts securities issued was nil, nil and RMB477.7 million in 2014, 2015 and 2016, respectively. Our dividends paid was RMB861.5 million, RMB55.1 million and RMB774.5 million in 2014, 2015 and 2016, respectively.

## **LIQUIDITY**

We fund our loans and investment portfolios principally through our deposits from customers. Although a majority of our deposits from customers have been short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our funding. Deposits from customers with remaining maturities of less than one year represented 89.1%, 86.9% and 90.4% of total deposits from customers as of December 31, 2014, 2015 and 2016, respectively. For additional information about our short-term liabilities and sources of funds, please see “Assets and Liabilities — Liabilities and Sources of Funds” and “Supervision and Regulation — Other Operational and Risk Management Ratios”.

## FINANCIAL INFORMATION

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 a certain amounts of cash and surplus deposit reserves, as well as an ability to obtain financing in the interbank market to meet any unexpected liquidity requirements. Please see “Risk Management — Liquidity Risk Management”.

The following table sets forth, as of December 31, 2016, the remaining maturities of our assets and liabilities.

As of December 31, 2016								
Undated	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)								
<b>Assets</b>								
Cash and deposits with central bank .....	32,683.7	16,687.2	—	—	—	—	49,370.9	
Deposits with banks and other financial institutions .....	—	1,543.3	5,325.0	5,912.2	50.0	—	12,830.5	
Placements with banks and other financial institutions .....	—	—	7,400.0	300.0	1,000.0	—	8,700.0	
Financial assets held under resale agreements.....	—	—	6,573.6	—	—	—	6,573.6	
Loans and advances to customers .....	3,717.1	1,284.2	9,613.5	20,256.6	87,753.1	15,317.0	20,605.8	
Investments .....	1,343.5	348.3	18,400.1	33,407.1	55,051.7	53,105.0	21,340.3	
Others <sup>(1)</sup> .....	10,009.0	6.9	1,808.6	957.4	284.0	987.2	—	
<b>Total assets</b> .....	<b>47,753.3</b>	<b>19,869.9</b>	<b>49,120.8</b>	<b>60,833.3</b>	<b>144,138.8</b>	<b>69,409.2</b>	<b>41,946.1</b>	<b>433,071.4</b>
<b>Liabilities</b>								
Borrowings from central bank....	—	45.9	2,315.2	272.9	1,883.0	—	—	4,517.0
Deposits from banks and other financial institutions .....	—	1,516.3	12,149.0	20,334.0	10,705.5	250.0	—	44,954.8
Placements from banks and other financial institutions .....	—	—	10,400.0	—	—	—	—	10,400.0
Financial assets sold under repurchase agreements .....	—	—	27,580.6	—	—	—	—	27,580.6
Due to customers .....	—	128,532.9	10,936.2	29,100.3	53,149.5	23,613.0	20.9	245,352.8
Debt securities issued .....	—	—	7,587.6	29,076.1	20,724.1	—	—	57,387.8
Others <sup>(2)</sup> .....	—	865.1	—	2,300.3	3,343.7	725.2	145.5	7,379.8
<b>Total liabilities</b> .....	<b>—</b>	<b>130,960.2</b>	<b>70,968.6</b>	<b>81,083.6</b>	<b>89,805.8</b>	<b>24,588.2</b>	<b>166.4</b>	<b>397,572.8</b>
<b>Net position</b> .....	<b>47,753.3</b>	<b>(111,090.3)</b>	<b>(21,847.8)</b>	<b>(20,250.3)</b>	<b>54,333.0</b>	<b>44,821.0</b>	<b>41,779.7</b>	<b>35,498.6</b>

Notes:

- (1) Consist primarily of interests in associates, property and equipment, deferred tax assets, goodwill and other assets.
- (2) Consist primarily of income tax payable and other liabilities.

## FINANCIAL INFORMATION

### CAPITAL RESOURCES

#### Shareholders' Equity

Our total shareholders' equity increased by 19.3% from RMB28,011.2 million as of December 31, 2014 to RMB33,418.0 million as of December 31, 2015 primarily due to an increase in our profit and an increase in share capital contributed by our equity shareholders. Our total shareholders' equity further increased by 6.2% to RMB35,498.6 million as of December 31, 2016 primarily due to an increase in our profit. The following table sets forth the components of the changes in our total equity attributable to shareholders for the periods indicated.

	<u>Shareholders' equity</u> (in millions of RMB)
<b>As of January 1, 2014</b> .....	<b>17,731.6</b>
Total comprehensive income.....	2,767.7
Appropriation of profits.....	(973.7)
<b>December 22, 2014</b> .....	<b>19,525.6</b>
<b>December 23, 2014</b> .....	<b>—</b>
Shares issued for acquisition of business .....	21,974.5
Capital contributed by equity shareholders .....	6,073.1
Loss for the period.....	(32.4)
Other comprehensive income.....	(4.0)
<b>December 31, 2014</b> .....	<b>28,011.2</b>
Profit for the year .....	3,012.4
Other comprehensive income .....	9.8
Capital contributed by equity shareholders .....	2,324.6
Obtain the control of subsidiaries .....	76.1
Others .....	10.4
Appropriation of profits.....	(26.5)
<b>As of December 31, 2015</b> .....	<b>33,418.0</b>
Profit for the year .....	3,360.1
Other comprehensive income.....	(648.8)
Purchase of non-controlling interests.....	(49.6)
Capital contribution by non-controlling interests .....	163.9
Capital contribution by non-controlling interests of newly established subsidiary .....	175.0
Appropriation of profits.....	(920.0)
<b>As of December 31, 2016</b> .....	<b>35,498.6</b>

## FINANCIAL INFORMATION

### Debt

#### *Debt Securities Issued*

We obtained the qualification to issue negotiable certificates of deposit in the fourth quarter of 2015. In 2015, we issued a number of negotiable certificates of deposit with an aggregate nominal amount of RMB3,000.0 million with coupon rates ranging from 3.3% to 3.4% per annum. These negotiable certificates of deposit matured in March and June 2016, respectively. In 2016, we issued a number of negotiable certificates of deposit with an aggregate nominal amount of RMB147,670.0 million with maturities between 3-12 months and with coupon rates ranging from 2.5% to 5.3% per annum. As of December 31, 2015 and 2016, the book value of our negotiable certificates of deposit issued were RMB2,979.0 million and RMB57,387.8 million, respectively.

### Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC. We are required to maintain our capital adequacy ratio above the minimum level required by the 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 Administrative Measures and PRC GAAP.

	As of December 31,		
	2014	2015	2016
	(in millions of RMB, except percentage)		
<b>Core tier-one capital</b>			
Share capital .....	15,420.5	16,625.0	16,625.0
Qualifying portion of capital reserve .....	9,779.4	10,919.6	10,274.5
Surplus reserve.....	244.6	542.3	877.1
General reserve .....	1,700.3	2,209.2	5,134.8
Retained earnings .....	464.1	2,648.9	1,807.9
Qualifying portion of non-controlling interests .....	287.1	287.8	385.6
<b>Total core tier-one capital .....</b>	<b>27,896.0</b>	<b>33,232.8</b>	<b>35,104.9</b>
<b>Core tier-one capital deductions</b>			
Goodwill .....	(468.4)	(468.4)	(468.4)
Other intangible assets other than land use rights.....	(140.0)	(70.9)	(141.6)
<b>Net core tier-one capital .....</b>	<b>27,287.6</b>	<b>32,693.5</b>	<b>34,494.9</b>
Other tier-one capital <sup>(1)</sup> .....	6.1	13.2	39.6
<b>Net tier-one capital .....</b>	<b>27,293.7</b>	<b>32,706.7</b>	<b>34,534.5</b>
<b>Tier-two capital</b>			
Surplus provision for loan impairment .....	2,517.2	2,994.2	3,279.1
Qualifying portions of non-controlling interests.....	23.4	37.2	153.7
<b>Net capital base<sup>(2)</sup> .....</b>	<b>29,834.3</b>	<b>35,738.1</b>	<b>37,967.3</b>
<b>Total risk-weighted assets.....</b>	<b>160,671.5</b>	<b>221,391.3</b>	<b>307,001.9</b>
<b>Core tier-one capital adequacy ratio.....</b>	<b>16.98%</b>	<b>14.77%</b>	<b>11.24%</b>
<b>Tier-one capital adequacy ratio.....</b>	<b>16.99%</b>	<b>14.77%</b>	<b>11.25%</b>
<b>Capital adequacy ratio .....</b>	<b>18.57%</b>	<b>16.14%</b>	<b>12.37%</b>

## FINANCIAL INFORMATION

*Notes:*

- (1) Includes other intangible assets excluding land use rights, good will and deferred tax recognized for tax losses.
- (2) Also referred to in this prospectus as “regulatory capital”.

As of December 31, 2015 and 2016, our core tier-one capital adequacy ratio was 14.77% and 11.24%, respectively, our tier-one capital adequacy ratio was 14.77% and 11.25%, respectively, and our capital adequacy ratio was 16.14% and 12.37%, respectively, which were all in compliance with the CBRC requirements.

### OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of bank acceptances, loan commitments, letters of guarantees issued and letters of credit issued. We issue letters of guarantee and letters of credit for our customers. The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of December 31,		
	2014	2015	2016
	(in millions of RMB)		
Bank acceptances .....	35,869.2	46,705.2	33,238.8
Loan commitments .....	815.1	1,229.1	1,688.6
Letters of guarantee .....	238.9	282.4	735.5
Letters of credit .....	—	—	1,205.2
<b>Subtotal</b> .....	<b>36,923.2</b>	<b>48,216.7</b>	<b>36,868.1</b>
<b>Operating lease commitments</b> .....	<b>465.7</b>	<b>501.8</b>	<b>675.7</b>
<b>Capital commitments</b> .....	<b>259.6</b>	<b>240.0</b>	<b>525.9</b>
<b>Total</b> .....	<b>37,648.5</b>	<b>48,958.5</b>	<b>38,069.7</b>

Our total off-balance sheet commitments increased by 30.0% from RMB37,648.5 million as of December 31, 2014 to RMB48,958.5 million as of December 31, 2015 primarily due to a 30.2% increase in our bank acceptances from RMB35,869.2 million as of December 31, 2014 to RMB46,705.2 million as of December 31, 2015, which was in line with the expansion of our bank acceptance business. Our total off-balance sheet commitments decreased by 22.2% to RMB38,069.7 million as of December 31, 2016 primarily due to a 28.8% decrease in our bank acceptances from RMB46,705.2 million as of December 31, 2015 to RMB33,238.8 million as of December 31, 2016, primarily because we scaled back our bank acceptance business due to its decreasing profitability in 2016.

## FINANCIAL INFORMATION

### 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 December 31, 2016. For the remaining maturities of our assets and liabilities as of December 31, 2016, please see “— Liquidity”.

	As of December 31, 2016			Total
	Less than 1 year	Between 1 and 5 years	More than 5 years	
	(in millions of RMB)			
<b>Certain contractual obligations not on balance sheet</b> .....				
Bank acceptances .....	33,238.8	—	—	33,238.8
Letters of credit .....	1,205.2	—	—	1,205.2
Letters of guarantee .....	214.4	521.1	—	735.5
<b>Total</b> .....	<b>34,658.4</b>	<b>521.1</b>	<b>—</b>	<b>35,179.5</b>

### 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 related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. Our Directors believe that these related party transactions were carried out on an arm’s length basis and would not distort our results of operations during the Track Record Period or cause such results not to be reflective of our future performance. For more details, please see Note 40 and 43 to the Accountants’ Reports attached hereto as Appendices IA and IB to this prospectus, respectively.

### 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.

#### Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturities 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.



## FINANCIAL INFORMATION

### *Repricing Gap Analysis*

The following table sets forth, as of December 31, 2016, 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 assets and liabilities.

As of December 31, 2016							
Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Interest bearing sum	Non- interest bearing	Total	
(in millions of RMB)							
<b>Assets</b>							
Cash and deposits with central bank .....	48,078.4	—	—	—	48,078.4	1,292.5	49,370.9
Deposits with banks and other financial institutions .....	12,780.5	50.0	—	—	12,830.5	—	12,830.5
Placements with banks and other financial institutions .....	7,700.0	1,000.0	—	—	8,700.0	—	8,700.0
Financial assets held under resale agreements.....	6,573.6	—	—	—	6,573.6	—	6,573.6
Loans and advances to customers .....	63,963.1	82,925.3	10,911.0	747.9	158,547.3	—	158,547.3
Investment securities and other financial assets .....	53,475.1	55,051.7	53,105.0	21,340.3	182,972.1	23.9	182,996.0
Others <sup>(1)</sup> .....	—	—	—	—	—	14,053.1	14,053.1
<b>Total assets</b> .....	<b><u>192,570.7</u></b>	<b><u>139,027.0</u></b>	<b><u>64,016.0</u></b>	<b><u>22,088.2</u></b>	<b><u>417,701.9</u></b>	<b><u>15,369.5</u></b>	<b><u>433,071.4</u></b>
<b>Liabilities</b>							
Borrowings from central bank....	2,634.0	1,883.0	—	—	4,517.0	—	4,517.0
Deposits from banks and other financial institutions .....	33,999.3	10,705.5	250.0	—	44,954.8	—	44,954.8
Placements from banks and other financial institutions .....	10,400.0	—	—	—	10,400.0	—	10,400.0
Financial assets sold under repurchase agreements .....	27,580.6	—	—	—	27,580.6	—	27,580.6
Deposits from customers.....	168,119.4	53,149.5	23,612.9	20.9	244,902.7	450.1	245,352.8
Debt securities issued .....	21,178.0	36,209.8	—	—	57,387.8	—	57,387.8
Others <sup>(2)</sup> .....	—	—	—	—	—	7,379.8	7,379.8
<b>Total liabilities</b> .....	<b><u>263,911.3</u></b>	<b><u>101,947.8</u></b>	<b><u>23,862.9</u></b>	<b><u>20.9</u></b>	<b><u>389,742.9</u></b>	<b><u>7,829.9</u></b>	<b><u>397,572.8</u></b>
<b>Interest rate gap</b> .....	<b><u>(71,340.6)</u></b>	<b><u>37,079.2</u></b>	<b><u>40,153.1</u></b>	<b><u>22,067.3</u></b>	<b><u>27,959.0</u></b>	<b><u>7,539.6</u></b>	<b><u>35,498.6</u></b>

Notes:

- (1) Consist primarily of interests in associates, property and equipment, deferred tax assets, goodwill and other assets.
- (2) Consist primarily of income tax payable and other liabilities.

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### *Sensitivity Analysis*

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net profit and equity. 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,					
	2014		2015		2016	
	Net profit	Equity	Net profit	Equity	Net profit	Equity
	(in millions of RMB)					
+ 100 basis-point.....	(67.2)	(46.1)	(220.4)	(88.4)	(719.4)	(363.9)
- 100 basis-point .....	67.2	46.1	220.4	88.4	719.4	363.9

Based on our assets and liabilities as of December 31, 2016, if interest rates increase (or decrease) by 100 basis points instantaneously, our net profit and equity for the year following December 31, 2016 would decrease (or increase) by RMB719.4 million and RMB363.9 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**

Exchange rate risk refers to risk caused by the adverse impact on the banks’ foreign currency position and cash flow as a result of the exchange rate fluctuations of their primary foreign currency. Our primary principle for controlling our exchange rate risk is to match assets and liabilities denominated in each currency and conduct monitoring over our foreign currency exposure on a daily basis. Based on the relevant regulatory requirements and our management’s judgments regarding the current market environment, we seek to control our exposure to exchange rate risk through reasonably arranging our sources and use of funds denominated in foreign currencies and minimizing mismatches of assets and liabilities in different currencies.

During the Track Record Period, our businesses were principally conducted in RMB and most of our monetary assets and liabilities were denominated in RMB. Accordingly, our Directors believe that our exposure to foreign currency risk was not significant during the Track Record Period.

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### CAPITAL EXPENDITURES

Our capital expenditures for 2014, 2015 and 2016 were primarily for the acquisition of properties for and renovation of our branches and sub-branches, purchases of self-service banking equipment, and development of our information system.

Our capital expenditures amounted to RMB591.8 million, RMB722.5 million and RMB1,349.6 million for 2014, 2015 and 2016, respectively. As of December 31, 2016, we had authorized capital commitments of RMB525.9 million, of which RMB253.6 million were all contracted for, and RMB272.3 million were authorized but not contracted for. The foregoing amounts and purposes may change depending on business conditions.

### CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our accounting policies described in Note 2 of the Accountants' Reports attached hereto as Appendices IA and IB to this prospectus, our 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 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.

The following is a description of the key estimation uncertainties and the critical judgments that we have made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in our consolidated financial statements and/or in the next twelve months. See also "Appendix IA — Accountants' Report for the Period from January 1, 2014 to December 22, 2014 — Note 2 — Significant Accounting Policies" and "Appendix IB — Accountants' Report for the Period from December 23, 2014 to December 31, 2014 and Years Ended December 31, 2015 and 2016 — Note 2 — Significant Accounting Policies".

### Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Thirteen City Commercial Banks and their subsidiaries (the "**Predecessor Entities Group**"). The Predecessor Entities control 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 their power over the entity. When assessing whether the Predecessor Entities have power, only substantive rights (held by the Predecessor Entities and other parties) are considered.

We consolidate an investment in a subsidiary into the consolidated financial statements from the date that control commences until the date that control ceases. We eliminate intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions in full in preparing the consolidated financial statements. We eliminate unrealized losses resulting from intra-group transactions in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

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Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Predecessor Entities, and in respect of which the Predecessor Entities have not agreed any additional terms with the holders of those interests which would result in the Predecessor Entities as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. For each business combination, the Predecessor Entities 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.

We present non-controlling interests in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. We present non-controlling interests in the results of the Predecessor Entities on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the bank.

Changes in the Predecessor Entities Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Predecessor Entities lose control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. We recognize any interest retained in that former subsidiary at the date when control is lost at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture

In the Bank's statement of financial position, we state an investment in a subsidiary at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### **Segment Reporting**

We identify our operating segments and the amounts of each segment item reported in the Financial Information from the financial information provided regularly to our most senior executive management for the purposes of allocating resources to, and assessing the performance of our various lines of business and geographical locations.

We do not aggregate individually material operating segments for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. We may aggregate operating segments which are not individually material if they share a majority of these criteria.

### **Provision for Impairment on Loans and Advances to Customers**

We periodically review our loan portfolios to assess impairment loss except for the loans that are individually assessed for impairment losses if impairment losses are identified for such loans. In determining whether provisions of impairment on loans should be recognized, we make judgment as to whether there is any evidence indicating a measurable decrease in the estimated future cash flows from a loan portfolio if no decrease in future cash flows has been found for any individual loan in such loan portfolio. The evidence of impairment resulting in the decrease in estimated cash flows includes

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## FINANCIAL INFORMATION

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deterioration in repayment abilities of borrowers in the loan portfolio, or defaults by borrowers in the loan portfolio due to the adverse changes in the macroeconomic conditions that correlate with borrowers' repayment abilities. We make impairment estimates based on the historical loss experience for a group of assets with similar credit risk characteristics for the loan portfolio that has indicated evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### **Fair Value of Financial Instruments**

We determine the fair value of financial instruments that are quoted in an active market through market inquiry. We use valuation techniques to determine the fair value of financial instruments that are not quoted in an active market. These valuation techniques include uses of recent transaction prices, observable prices of similar financial instruments, discounted cash flows analysis with risk adjusted, as well as pricing models that are commonly used in the market. To the extent practical, valuation models for derivative and other financial instruments use observable market data, such as interest yield curves and foreign exchange rates. Fair values calculated through valuation techniques are verified based on the industry practice and currently observable prices of same or similar financial instruments in the market.

We, through regular review and approval procedures, review the assumptions and market expectations used by the valuation techniques, including examining the assumptions and pricing factors of models, changes in assumptions of models, nature of market parameters, activeness of the market, factors for adjusting fair values which are not covered by models, and the consistency of valuation techniques between periods. Valuation techniques are regularly reviewed through tests of their effectiveness and updated to reflect the market conditions at the balance sheet date where appropriate.

### **Classification of Held-to-maturity Investments**

We classify certain non-derivative financial assets with fixed or determinable repayment amount and fixed maturity as held-to-maturity investments at the initial recognition. This classification requires significant judgments, and in making these judgments, we evaluate our intention and ability to hold such investments to maturity. If there is any change in our intention and ability to hold such investments to maturity, the entire held-to-maturity investment portfolio will be reclassified as available-for-sale financial assets.

### **Impairment on Non-Financial Assets**

We regularly review the impairment of non-financial assets. If there is any indication that the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset.

### **Income Tax**

In the ordinary course of our business, there are certain transactions and activities for which the ultimate tax treatments have uncertainties. In accordance with the current tax laws and regulations as well as the policies applied to us by government authorities in previous years, we make tax estimates on the implementation of new tax laws and regulations as well as events involving uncertainties in tax treatment. In calculating our income tax liabilities, we make significant judgments. Where the final outcome of such tax matters is different from the amounts initially recorded, such difference will affect the current income tax and deferred income tax provisions in the period during which such a determination is made.

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## FINANCIAL INFORMATION

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### Impact of Future Accounting Policy Changes

We currently assess the impairment of our loans and investment assets under IAS 39. The IASB, which is responsible for developing and revising international accounting standards, issued IFRS 9 and its amendments from time to time, which will replace the accounting standards relating to classification, measurement and de-recognition 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.

The major differences between IFRS 9 and IAS 39 are the measurement categories and the approach for classifying financial assets. The classification of financial assets under IFRS 9 will require us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Further, for financial assets that will be classified as “amortized cost” or “fair value through other comprehensive income” under IFRS 9, we will be required to apply a new expected credit loss impairment model under IFRS 9, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of an objective evidence of impairment as a precondition for recognizing credit losses. In particular, calculation of impairment of financial instruments on an expected credit loss basis will result in an earlier recognition of, and may result in an increase in, impairment allowances. For details about the differences between IFRS 9 and IAS 39, see Note 2(1) to our historical financial information set forth in the Accountant’s Reports attached hereto as Appendices IA and IB to this prospectus.

We are analyzing our business models, loans and other financial instruments’ contract terms and changes to our existing credit exposures to assess the potential impact on our financial statements resulting from the adoption of IFRS 9. Given the nature of our operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the risk management organization, process and key functions, budgeting and performance review, as well as the IT systems. We are starting to carry out an assessment of the need for any system modification related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training.

We have not completed our assessment of the full impact of adopting IFRS 9 and therefore its possible impacts on our operating results and financial position have not been quantified. We will change our current impairment provisioning practice in the future in accordance with IFRS 9 and any authoritative interpretive guidance on its application. It is expected that the implementation of the expected credit loss model will have an impact on the calculation, amount and timing of the allowance for impairment losses. For details, see “Risk Factors — Risks Relating to the PRC Banking Industry — Changes in accounting standards or policies may materially affect our financial condition and results of operations”.

For other new accounting standards that come into effect after the prospectus date, see Note 2(1) to our historical financial information set forth in the Accountant’s Reports attached hereto as Appendices IA and IB to this prospectus. We may put in place necessary changes to comply with the new standards from time to time.

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## FINANCIAL INFORMATION

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### INDEBTEDNESS

As of April 30, 2017 (being the date for the purpose of this indebtedness statement, before this prospectus is printed), we have the following indebtedness:

- certificates of interbank deposit in an aggregate carrying amount of RMB40.01 billion;
- deposits from customers, borrowing from the central bank, deposits and placements from banks and other banks and financial institutions and financial assets sold under repurchase agreements that arose from the normal course of our banking business; and
- loan commitments, bank acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies (including pending litigation) that arose from our normal course of banking business.

The Bank has applied to the relevant authority for approval of the plan to issue innovative start-up corporate bonds and green bonds in an aggregate principal amount of RMB3.0 billion for a term of no more than five years. As of April 30, 2017, the Bank had not yet received approvals for the above to-be-issued bonds.

Except as disclosed above, the Bank did not have, as of April 30, 2017, any material and outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. Our Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of us since April 30, 2017 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.

### DIVIDENDS

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders at a general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, 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. As approved by our Shareholders at a general meeting, both current and new shareholders are entitled to the cumulated retained earnings prior to the Listing. 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. Pursuant to PRC laws and our Articles of Association, dividends may only be distributed from our distributable profits calculated in accordance with PRC GAAP or IFRS (or the accounting standards of the overseas jurisdictions where our Shares are listed), whichever is lower.

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## FINANCIAL INFORMATION

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Our distributable profits are calculated as 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 surplus 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 December 31, 2016, the balance of our general reserve amounted to RMB5,134.8 million, which was 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 at a 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.

The 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 December 31, 2016, we had a capital adequacy ratio of 12.37%, a tier-one capital adequacy ratio of 11.25% and a core tier-one capital adequacy ratio of 11.24%, which were all in compliance with the relevant CBRC regulations. Please 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 2014, Sanmenxia Bank, Xinxiang Bank, Shangqiu Bank, Luohe Bank and Zhumadian Bank declared cash dividends in an aggregate of amount of RMB 912.9 million to their shareholders for the year ended December 31, 2013. In 2015, we declared cash dividends in an aggregate of amount of RMB 47.2 million to the former shareholders of Luohe Bank, Xinyang Bank, Zhoukou Bank and Zhumadian Bank for the period from January 1, 2014 to June 30, 2014. In 2016, we declared cash dividends in an aggregate amount of RMB 914.4 million to all existing shareholders for the year ended



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## FINANCIAL INFORMATION

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December 31, 2015. As of December 31, 2016, declared but unpaid dividends, namely, (i) dividends payable to shareholders that we were unable to contact, (ii) dividends payable to shareholders who did not timely claim the dividends, and (iii) dividends that were frozen according to court judgments, amounted to RMB229.0 million. Please also see “dividends payable” under “other liabilities” in “Appendix IB — Note 36”. We intend to pay declared but undistributed dividends after locating the relevant shareholders using our internal funds, in accordance with PRC laws and regulations.

Declared but unpaid dividends are recorded as “dividend payable” under “other liabilities” on our financial statements. For the avoidance of doubt, as of the Latest Practicable Date, the above mentioned declared but undistributed dividends with the amount of RMB205.5 million are no longer part of our accumulated retained earnings and are not subject to Shareholders’ approval for payment.

On April 6, 2017, our Shareholders approved a dividend policy for fiscal years 2017 to 2019. Under the policy, the Board will propose to our Shareholders for approval the distribution of dividends of not less than 65% of distributable profits as of year end in each of the fiscal years 2017 to 2019, subject to compliance with our Articles of Association and relevant regulatory requirements. 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

The listing expenses to be borne by us are estimated to be approximately RMB207.1 million (equivalent to approximately HK\$236.7 million). During the Track Record Period, we had incurred RMB4.0 million listing expenses by December 31, 2016. After December 31, 2016, approximately RMB23.8 million is expected to be charged to our statement of profit or loss and other comprehensive income, and approximately RMB179.3 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 listing expenses to have a material adverse impact on our results of operations for the year ending December 31, 2017.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets is prepared based on our consolidated net tangible assets attributable to our Shareholders as of December 31, 2016 derived from our financial information as of December 31, 2016 as set out in the Accountants’ Report set forth in Appendix IB to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared to show the effect on our net tangible assets as of December 31, 2016 as if the Global Offering had occurred on December 31, 2016. The unaudited pro forma adjusted consolidated net tangible assets per share are calculated in accordance with Rule 4.29 of the Listing Rules.

## FINANCIAL INFORMATION

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

	<b>Consolidated net tangible assets attributable to Shareholders of the Bank as of December 31, 2016</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank</b>	<b>Pro forma adjusted consolidated net tangible assets per share</b>	
	<b>RMB Million Note <sup>(1)</sup></b>	<b>RMB Million Note <sup>(2)/(5)</sup></b>	<b>RMB Million Note <sup>(4)</sup></b>	<b>RMB Note <sup>(4)</sup></b>	<b>HK\$ Note <sup>(5)</sup></b>
Based on an offer price of HK\$2.42 per share .....	33,015.4	6,152.9	39,168.3	2.00	2.29
Based on an offer price of HK\$2.53 per share .....	33,015.4	6,435.3	39,450.7	2.01	2.30

*Notes:*

- (1) The consolidated net tangible assets attributable to shareholders of the Bank as of December 31, 2016 are based on the consolidated net assets attributable to shareholders of the Bank of RMB34,719.2 million after (i) deduction of goodwill of RMB468.4 million and intangible assets of RMB1,235.8 million; and (ii) adjusting the share of intangible assets attributable to non-controlling interests of RMB 0.4 million.
- (2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK\$2.42 (being the low-end of the proposed Offer Price range) and HK\$2.53 per H Share (being the high-end of the proposed Offer Price range) and the assumption that there are 3,000,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank (excluding listing expenses of RMB4.0 million which have already been charged to consolidated statement of profit or loss during the year ended December 31, 2016) and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Bank do not take into account the financial results or other transactions of the Bank subsequent to December 31, 2016.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived on the basis of 19,625,000,000 shares in issue assuming that the Global Offering has been completed on December 31, 2016 and that the Over-allotment Option is not exercised.
- (5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per share are translated into or from Renminbi at the rate of RMB0.8750 to HK\$1.00, the exchange rate set by the PBoC prevailing on June 23, 2017. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Our Directors confirm that there was no material adverse change in our financial or trading position from December 31, 2016 to the date of this prospectus.

### WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of Part A of Appendix 1A of the Hong Kong Listing Rules require this document 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 document 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, the PBoC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Hong Kong 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 Listing Rules we are not required to include a working capital statement from the directors in this document.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See the section entitled “Business — Our Development Strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$2.42, being the low-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK\$7,027.4 million, if the Over-allotment Option is not exercised; or approximately HK\$8,092.0 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$2.48, being the mid-point of the proposed Offer Price range of HK\$2.42 to HK\$2.53, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK\$7,203.3 million, if the Over-allotment Option is not exercised; or to be approximately HK\$8,294.4 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$2.53, being the high-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to be approximately HK\$7,350.0 million, if the Over-allotment Option is not exercised; or to be approximately HK\$8,463.0 million, if the Over-allotment Option is exercised in full.

We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

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## CORNERSTONE INVESTORS

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### THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with certain investors (the “**Cornerstone Investors**”, and each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe for (i) 726,000,000 H Shares; and (ii) such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for in an aggregate amount of US\$281 million (approximately HK\$2,191.72 million<sup>(1)</sup>) at the Offer Price (the “**Cornerstone Placing**”).

Based on the Offer Price of HK\$2.42 (being the low-end of the proposed Offer Price range), the total number of H Shares to be subscribed by the Cornerstone Investors would be 1,631,666,000, representing approximately (i) 54.94% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 47.09% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 49.44% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 43.00% of the Offer Shares, assuming that the Over-allotment Option is fully exercised, (v) 8.31% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 8.13% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised. Based on the Offer Price of HK\$2.48 (being the mid-point of the proposed Offer Price range), the total number of H Shares to be subscribed by the Cornerstone Investors would be 1,609,756,000, representing approximately (i) 54.20% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 46.46% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 48.78% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 42.42% of the Offer Shares, assuming that the Over-allotment Option is fully exercised, (v) 8.20% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 8.02% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised. Based on the Offer Price of HK\$2.53 (being the high-end of the proposed Offer Price range), the total number of H Shares to be subscribed by the Cornerstone Investors would be 1,592,290,000, representing approximately (i) 53.61% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 45.95% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 48.25% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 41.96% of the Offer Shares, assuming that the Over-allotment Option is fully exercised, (v) 8.11% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 7.93% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

To the best knowledge of our Bank, each of the Cornerstone Investors and their respective ultimate beneficial owners is an independent third party and independent of each other, not a connected person or an existing shareholder or close associates of the Bank. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Bank on or around July 18, 2017.

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 our 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 completion of

## CORNERSTONE INVESTORS

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 (as defined in 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 as described in “Structure of the Global Offering—The Hong Kong Public Offering”.

*Note:*

- (1) Calculated based on an exchange rate of US\$1:HK\$7.7997 as described in “Information about this Prospectus and the Global Offering—Exchange Rate” in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant cornerstone investment agreement.

### CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing:

Cornerstone Investor	Investment Amount/Number of H Shares agreed to subscribe for	Indicative Offer Price <sup>(2)</sup>	Number of H Shares to be subscribed for	Approximate percentage of the International Offer Shares (assuming that Option is not exercised)	Approximate percentage of the International Offer Shares (assuming that Over-allotment Option is exercised in full)	Approximate percentage of the Offer Shares (assuming that Over-allotment Option is not exercised)	Approximate percentages of the Offer Shares (assuming that Over-allotment Option is exercised in full)	Approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is exercised in full)	Approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is exercised in full)
Tian Kun Investment Limited	726,000,000 H Shares	HK\$2.42	726,000,000	24.44%	20.95%	22.00%	19.13%	3.70%	3.62%
Shanghai Huaxin Group (HongKong) Limited	US\$180 million (approximately HK\$1,403.95 million <sup>(1)</sup> )	HK\$2.42	580,142,000	19.53%	16.74%	17.58%	15.29%	2.96%	2.89%
		HK\$2.48	566,107,000	19.06%	16.34%	17.15%	14.92%	2.88%	2.82%
		HK\$2.53	554,919,000	18.68%	16.01%	16.82%	14.62%	2.83%	2.76%
China Create Capital Limited	US\$101 million (approximately HK\$787.77 million <sup>(1)</sup> )	HK\$2.42	325,524,000	10.96%	9.39%	9.86%	8.58%	1.66%	1.62%
		HK\$2.48	317,649,000	10.70%	9.17%	9.63%	8.37%	1.62%	1.58%
		HK\$2.53	311,371,000	10.48%	8.99%	9.44%	8.20%	1.59%	1.55%

*Notes:*

- (1) Calculated based on the exchange rate of US\$1: HK\$7.7997 as described in “Information about this Prospectus and the Global Offering—Exchange Rate” in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant cornerstone investment agreement.
- (2) Being the low-end, mid-point and high-end of the proposed Offer Price range set out in this prospectus respectively.

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## CORNERSTONE INVESTORS

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The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

### 1. Tian Kun Investment Limited

Tian Kun Investment Limited (天堃投資有限公司) (“**Tian Kun Investment**”) is a company incorporated in Hong Kong. It is an investment holding company indirectly wholly-owned by China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司) (“**CMIG Futurelife**”), which is in turn controlled by China Minsheng Investment Group (中國民生投資股份有限公司) (“**CMIG**”). CMIG Futurelife is a company established in the PRC and a service provider of property management and community value-added services. CMIG is a leading international private investment group founded in Shanghai on May 9, 2014 with a registered capital of RMB50 billion. The joint establishment of CMIG by 59 private enterprises was initiated by the All-China Federation of Industry and Commerce (ACFIC) and approved by the State Council. CMIG has identified its strategic direction of “integration of industry and finance”, and is building a sound global industrial financial platform, expanding complementing business in industry and finance. CMIG’s focused areas in industry include, among others, new energy, home-based care for the elderly, construction industrialization and general aviation.

Tian Kun Investment may obtain external financing by entering into a loan facility with Bank of Communications Co., Ltd. Hong Kong Branch (the “**BOCOM Lender**”) to finance its subscription of the Offer Shares. The BOCOM Lender is the Hong Kong branch of Bank of Communications Co., Ltd, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3328) and the Shanghai Stock Exchange (stock code: 601328). The loan, if obtained, will be on normal commercial terms after arm’s length negotiations with no other direct or indirect benefits given by the BOCOM Lender. All or some of the Offer Shares to be subscribed for by Tian Kun Investment may be charged to the BOCOM Lender as security for the loan facility. Under the financing arrangement, upon the occurrence of certain customary events of default, Tian Kun Investment will be required to repay the loan before its maturity. The BOCOM Lender therefore has the right to enforce the security interest in the Offer Shares subject to such charge at any time upon the occurrence of certain customary events of default. Tian Kun Investment agrees and undertakes to the Bank to procure the BOCOM Lender not to dispose of the collateral shares under the financing arrangement (as the case may be) at any time during the period of six months following the Listing Date.

### 2. Shanghai Huaxin Group (HongKong) Limited

Shanghai Huaxin Group (HongKong) Limited (上海華信集團(香港)有限公司) (“**Shanghai Huaxin Group HK**”) is a company incorporated in Hong Kong and is principally engaged in the trading of refined oil and fuel oil. Shanghai Huaxin Group HK is wholly-owned by CEFC Shanghai International Group Limited (上海華信國際集團有限公司) (“**Shanghai Huaxin**”), a company established in the PRC principally engaged in energy industry businesses and provision of financial services. Shanghai Huaxin is the controlling shareholder of CEFC Anhui International Holding Co. Ltd. (安徽華信國際控股股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002018). By adopting the expansion of overseas resources economic cooperation as its strategy, Shanghai Huaxin strives for a leading role in the industry and to develop into a modernized enterprise with international competitiveness. It mainly conducts trading on fuel oil, aromatic hydrocarbon, crude oil and natural gas. In 2017, China CEFC Energy Company Limited (“**CEFC China**”), the parent company of Shanghai Huaxin, entered into an agreement with Abu Dhabi National Oil Company pursuant to which CEFC China was granted a 4% interest in Abu Dhabi’s onshore leased oil concession. In relation to financial services, through setting up a structure with full capital market services license, Shanghai Huaxin utilizes the same to support the long term development of its energy

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## CORNERSTONE INVESTORS

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industry businesses. It has entered into an agreement to acquire the controlling interest in J&T Banka in the Czech Republic, which will make it the first private Chinese enterprise to acquire a controlling stake in a European bank. It also owns various financial institutions, including CEFC Shanghai Securities Limited (上海華信證券有限責任公司).

### 3. China Create Capital Limited

China Create Capital Limited (“**China Create Capital**”) is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Zhang Wei (張偉). The principal business of China Create Capital is investment holding.

China Create Capital may obtain external financing by entering into a loan facility with CCB International Securities Limited (the “**CCBI Lender**”) to finance its subscription of the Offer Shares. The ultimate beneficial owner of the CCBI Lender is China Construction Bank Corporation, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939). The loan, if obtained, will be on normal commercial terms after arm’s length negotiations with no other direct or indirect benefits given by the CCBI Lender. All or some of the Offer Shares to be subscribed for by China Create Capital may be charged to the CCBI Lender as security for the loan facility. Under the financing arrangement, upon the occurrence of certain customary events of default, China Create Capital will be required to repay the loan before its maturity. The CCBI Lender therefore has the right to enforce the security interest in the Offer Shares subject to such charge at any time upon the occurrence of certain customary events of default. China Create Capital agrees and undertakes to the Bank to procure the CCBI Lender not to dispose of the collateral shares under the financing arrangement (as the case may be) at any time during the period of six months following the Listing Date.

### 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 Purchase Agreement having been entered into and having become 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 not having been revoked.

### Restrictions on the Cornerstone Investors’ Investment

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Bank and the relevant underwriter(s), it will not, at any time during the period of six (6) months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment 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, amongst other requirements, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by such restrictions imposed on the Cornerstone Investor.



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## UNDERWRITING

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### HONG KONG UNDERWRITERS

CLSA Limited

J.P. Morgan Securities (Asia Pacific) Limited

CCB International Capital Limited

CMB International Capital Limited

BOCOM International Securities Limited

GF Securities (Hong Kong) Brokerage Limited

Central China International Capital Limited

Haitong International Securities Company Limited

SPDB International Capital Limited

First Capital Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, we are offering initially 330,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) as mentioned in this prospectus, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscriptions for 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 on and subject to, among other things, the International Purchase Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

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## UNDERWRITING

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### *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:

- (1) there develops, occurs, exists or comes into force:
  - (a) any new law or any change or development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in existing laws, 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 or the European Union (or any member thereof), Japan or any other jurisdiction relevant to the Bank or the Global Offering (each a “**Relevant Jurisdiction**”); or
  - (b) any change or development involving a prospective change, or any event or series of events or circumstance likely to result in or representing a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, currency market, credit, 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 and credit markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or
  - (c) any event or series of events or circumstance in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, 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 infectious diseases or epidemics in or directly or indirectly affecting any Relevant Jurisdiction; or
  - (d) 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
  - (e) any moratorium, suspension or limitation (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 Hong Kong 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
  - (f) 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 any other member of the Group listed or quoted on a stock exchange or an over-the-counter market; or

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## UNDERWRITING

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- (g) 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), 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 other Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (h) the issue or requirement to issue by the Bank of a supplemental or amendment to this prospectus or any 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 upon any requirement or request of the Hong Kong Stock Exchange or the SFC; or
- (i) any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (j) any actions, suits, claims (whether or not any such claim involves or results in any action, suit or proceeding), demands, investigations, judgment, awards and proceedings (including, without limitation, any investigation or inquiry by or before any governmental authority) being threatened or instigated against any member of the Group or any executive Director; or
- (k) a governmental authority in any Relevant Jurisdiction commencing any proceedings, or announcing an intention to commence any proceedings against any member of the Group or any Director; or
- (l) any of the chairman or president vacating his office, any Director 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
- (m) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO, the PRC Company Law, the Listing Rules or applicable laws; or
- (n) any valid demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group 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 any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (o) a prohibition on the Bank for whatever reason from offering, allotting or selling the H Shares (including any additional H Shares which may be issued or sold pursuant to the exercise of Over-allotment Option) pursuant to the terms of the Global Offering; or
- (p) the imposition of economic sanctions, or the withdrawal of any trading privileges, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction;

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## UNDERWRITING

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which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and the Joint Sponsors: (A) is or will be or is likely 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 (financial or otherwise), or prospects of the Group as a whole; or (B) has or will have or is likely 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; or (C) makes or will make it or is likely to make it impracticable or inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus or any other documents in connection with the offer and sale of the H Shares, and/or to perform or implement any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering as envisaged; or (D) would have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents or materially delays the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (2) there has come to the notice of any of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters:
- (a) that any statement contained in the documents used in connection with the offer and sale of the H Shares, and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Bank in connection with the Global Offering (including any supplement or amendment thereto) was or has become untrue, incomplete or incorrect in any material aspect or misleading, or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the documents used in connection with the offer and sale of the H Shares, and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and not made on reasonable grounds or, where appropriate, not based on reasonable assumptions; or
  - (b) material non-compliance of this 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 regulation; or
  - (c) 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 this prospectus, constitutes an material omission therefrom; or
  - (d) either (i) there has been a material breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Purchase Agreement by the Bank or (ii) any of the representations, warranties and undertakings given by the Bank in Hong Kong Underwriting Agreement or the International Purchase Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading; or
  - (e) any of the experts has withdrawn its respective consent to the issue of this 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

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## UNDERWRITING

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- (f) 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
- (g) any litigation or dispute or potential litigation or dispute, which would materially and adversely affect the operation, financial condition, reputation or composition of the board of the Group; or
- (h) any material breach of any of the obligations of the Bank under the Hong Kong Underwriting Agreement or the International Purchase Agreement; or
- (i) any material adverse change or prospective material adverse change or development involving a prospective adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Group as a whole; or
- (j) the grant or agreement to grant by the Listing Committee of the Hong Kong Stock Exchange of the listing on the Main Board of, and permission to deal on the Main Board in, the Offer Shares and any H Shares to be converted from the state-owned shares pursuant to the relevant PRC regulations relating to reduction of state-owned shares is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (k) any material adverse change or prospective material adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of the Group as a whole (including any litigation or claim of any third party being threatened or instigated against any member of the Group); or
- (l) the Bank has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;

then the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and the Joint Sponsors may, in their sole and absolute discretion and upon giving notice orally or 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*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such 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 commencement of dealings), except pursuant to the Global Offering or any of the circumstances provided under Rule 10.08 of the Listing Rules.

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## UNDERWRITING

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### *Undertakings Pursuant to the Hong Kong Underwriting Agreement*

#### *Undertakings by Our Bank*

The Bank hereby undertakes to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six Month Period**”), the Bank will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners, the Joint Lead Managers and 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, 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 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 Shares or any other securities of the Bank or any shares or other securities of such other member of the Group, 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 H Shares or other securities of the Bank, as applicable or any interest in any of the foregoing); 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, or announce any intention to effect, any of the foregoing,

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 (whether or not the issue of such share capital or other securities will be completed within the First Six Month Period). The Bank further agrees that, in the event the Bank enters into any of the transactions described above or offers to or agrees to or announces any intention to effect any such transaction during the six months commencing on the date on which the First Six Month Period expires, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Bank will, create a disorderly or false market for any Shares or other securities of the Bank.

#### *Indemnity*

We have agreed to indemnify the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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### *Hong Kong Underwriters' Interests in Our Bank*

Except for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interest in our Bank or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Bank.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### **International Offering**

#### *International Purchase Agreement*

In connection with the International Offering, it is expected that we will enter into the International Purchase Agreement with, among others, the International Purchasers and the Joint Global Coordinators. Under the International Purchase Agreement, subject to the conditions set out therein, the International Purchasers will severally agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective portions of the International Offer Shares which are not taken up under the International Offering.

We and the Selling Shareholders expect to grant the Over-allotment Option to the International Purchasers, exercisable by the Joint Global Coordinators on behalf of the International Purchasers, until 30 days after the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot and the Selling Shareholders to sell up to an aggregate of 495,000,000 H Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price to cover over-allocations, if any, in the International Offering.

### **Commissions and Expenses**

The Hong Kong Underwriters will receive an underwriting commission of 1.0% of the aggregate Offer Price of all the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. In addition, we may, at our absolute and sole discretion, pay any or all of the Underwriters a discretionary incentive fee of up to an aggregate of no more than 0.8% of the Offer Price for each Offer Share. Further, we may, at our absolute and sole discretion, pay any or all of the parties involved in, or in connection with, the Global Offering an additional discretionary fee of up to an aggregate of no more than 0.43% of the Offer Price for each Offer Share.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, to all or any of the International Purchasers in such proportion as the Joint Global Coordinators in their sole and absolute discretion determine.

The aggregate commissions and fees, together with the Hong Kong Stock Exchange listing fees, SFC transaction levy and the Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$236.7 million (assuming an Offer Price of HK\$2.48 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus) and the Over-allotment Option is not exercised at all), are payable and borne by our Bank.

### **INDEPENDENCE OF THE JOINT SPONSORS**

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### 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 (subject to adjustment and the Over-allotment Option):

- (a) the Hong Kong Public Offering of 330,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in the section headed “— The Hong Kong Public Offering” below; and
- (b) the International Offering of 2,970,000,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States only to QIBs as defined in Rule 144A or any other available exemption from registration under the U.S. Securities Act.

The Offer Shares will represent approximately 16.82% 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 18.90% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the section entitled “— The International Offering — Over-allotment Option” below.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares in the United States to QIBs as defined in Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Purchasers are soliciting from prospective investors’ indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the sub-section entitled “— The Hong Kong Public Offering — Reallocation and Clawback” below.

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares Initially Offered

We are initially offering 330,000,000 Offer 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. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 1.68% of the enlarged issued share capital of our Bank immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).



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## STRUCTURE OF THE GLOBAL OFFERING

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The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. 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.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the section headed “— Conditions of the Global Offering” below.

### **Allocation**

Allocation of 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 Offer Shares initially available under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) is to be equally divided into two pools for allocation purposes (subject to adjustment at odd lot size): 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 Offer Shares with an aggregate price of HK\$5 million or less (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable). The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million and up to the total value of Pool B (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that 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 165,000,000 Hong Kong Offer Shares (being 50% of the 330,000,000 Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Reallocation and Clawback

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 330,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 990,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 1,320,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 1,650,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators and the Joint Sponsors. If either the Hong Kong Public Offering or the International Offering is not fully subscribed for, the Joint Global Coordinators and the Joint Sponsors have the authority to reallocate all or any unsubscribed Offer Shares from such offering to the other, in such proportion as the Joint Global Coordinators and the Joint Sponsors deem appropriate.

### Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and

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## STRUCTURE OF THE GLOBAL OFFERING

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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.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$2.53 per Offer Share in addition to the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “— Pricing and Allocation” below, is less than the maximum price of HK\$2.53 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares”.

### THE INTERNATIONAL OFFERING

#### Number of International Offer Shares Offered

The International Offering will consist of an initial offering of 2,970,000,000 International Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering.

#### Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such 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 Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section headed “— Pricing and Allocation” 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 H Shares, and/or hold or sell its H Shares, after the listing of the H Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the International 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 its shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

#### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation and Clawback” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Over-allotment Option

In connection with the Global Offering, our Bank and the Selling Shareholders are expected to grant the Over-allotment Option to the International Purchasers, exercisable by the Joint Global Coordinators at their sole and absolute discretion for themselves and on behalf of the International Purchasers within 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require our Bank to issue and allot and the Selling Shareholders to sell up to an aggregate of 495,000,000 Offer Shares representing in aggregate 15% of the initial number of the Offer Shares at the Offer Price to among other things (such as effecting the permitted stabilizing actions as set out in “— Stabilization” below), cover over-allocations in the International Offering, if any. An announcement will be made in the event that the Over-allotment Option is exercised. The Joint Global Coordinators may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

### 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 newly issued 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 a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and 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. Should stabilizing transactions be effected in connection with the Global Offering, this will be effected at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it.

Stabilization action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

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## STRUCTURE OF THE GLOBAL OFFERING

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Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on the 30th day after the date of closing of the application lists under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

### **Over-allocation**

Following any over-allocation of H Shares in connection with the Global Offering, the Joint Global Coordinators, their affiliates or any person acting for them may cover such over-allocation by using H Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO.

### **THE SELLING SHAREHOLDERS**

The Selling Shareholders are initially offering a total of 300,000,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of additional 45,000,000 Sale Shares if the Over-allotment Option is exercised in full.

Pursuant to a letter issued by the NSSF (Shebaojijinfā [2017] No. 59) on June 12, 2017, 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 (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) to an account designated by the NSSF.

### **PRICING AND ALLOCATION**

The International Purchasers will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of 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 about, the last day for lodging applications under the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on the Price Determination Date, which is expected to be on or about Wednesday, July 12, 2017 and in any event no later than Monday, July 17, 2017.

The Offer Price will not be more than HK\$2.53 per Offer Share and is expected to be not less than HK\$2.42 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.

**If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) by Tuesday, July 18, 2017, the Global Offering will not proceed and will lapse.**

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators and the Joint Sponsors consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Tuesday, July 11, 2017, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk), and on our Bank's website at [www.zybank.com.cn](http://www.zybank.com.cn), notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics, and the future plans and use of proceeds as currently set out in "Summary" and any other financial information which may change as a result of such reduction.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators and the Joint Sponsors may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators and the Joint Sponsors.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

If the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application may or may not (depending on the information contained in the announcement) be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

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## STRUCTURE OF THE GLOBAL OFFERING

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The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of and results of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Tuesday, July 18, 2017 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Bank ([www.zybank.com.cn](http://www.zybank.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

### 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 subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on the Price Determination Date.

We expect that our Bank and the Selling Shareholders will, on or about Wednesday, July 12, 2017, shortly after determination of the Offer Price, enter into the International Purchase Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Purchase Agreement are summarized in the section entitled “Underwriting”.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- (a) the Listing Committee granting the listing of, and permission to deal in, the Offer Shares to be issued pursuant to the Global Offering (including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Hong Kong Stock Exchange;
- (b) our Bank having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Hong Kong Stock Exchange;
- (c) the Offer Price having been duly determined and the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (unless and to the extent such conditions are validly waived on or before such dates and times) and not having been terminated in accordance with the terms of the respective agreements,
- (e) in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event, not later than the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance.

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## STRUCTURE OF THE GLOBAL OFFERING

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The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Tuesday, July 18, 2017 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Offer Shares, which is expected to be on Wednesday, July 19, 2017, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Offer Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, July 19, 2017, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, July 19, 2017. The H Shares will be traded in board lots of 1,000 H Shares. The stock code of the H shares is 1216.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his or her 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 the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of any Shares in our Bank and/or any of our subsidiaries;
- are a Director or chief executive officer of our Bank and/or any of our subsidiaries;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- are 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;
- are an associate (as defined in the Listing Rules) of any of the above; 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](http://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, June 30, 2017 until 12:00 noon on Tuesday, July 11, 2017 from:

(i) *any of the following offices of the Hong Kong Underwriters:*

<b>CLSA Limited</b>	18/F, One Pacific Place, 88 Queensway, Hong Kong
<b>J.P. Morgan Securities (Asia Pacific) Limited</b>	28/F, Chater House, 8 Connaught Road Central, Central, Hong Kong
<b>CCB International Capital Limited</b>	12/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong
<b>CMB International Capital Limited</b>	Unit 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road Central, Hong Kong
<b>BOCOM International Securities Limited</b>	9/F Man Yee Building, 68 Des Voeux Road Central, Hong Kong
<b>GF Securities (Hong Kong) Brokerage Limited</b>	29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
<b>Central China International Capital Limited</b>	Suites 1505-1508, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
<b>Haitong International Securities Company Limited</b>	22/F Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
<b>SPDB International Capital Limited</b>	32/F, One Pacific Place, 88 Queensway, Hong Kong
<b>First Capital Securities Limited</b>	Unit 4512, 45/F, The Center, 99 Queen's Road Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) *or any of the following branches of the receiving banks:*

(a) Standard Chartered Bank (Hong Kong) Limited

<b>District</b>	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
<b>Kowloon</b>	Kwun Tong Branch	G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong
	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
<b>New Territories</b>	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Tuen Mun Town Plaza Branch	Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun

(b) Wing Lung Bank Limited

<b>District</b>	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Head Office	45 Des Voeux Road Central
	Kennedy Town Branch	28 Catchick Street
<b>Kowloon</b>	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Lam Tin Sceneway Plaza Branch	Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road
	Sham Shui Po Branch	111 Tai Po Road
	To Kwa Wan Branch	64 To Kwa Wan Road
<b>New Territories</b>	Sheung Shui Branch	128 San Fung Avenue

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 30, 2017 until 12:00 noon on Tuesday, July 11, 2017 from the Depository Counter of HKSCC at 1/F, One and Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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 "HORSFORD NOMINEES LIMITED — ZHONGYUAN BANK PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Friday, June 30, 2017 — 9:00 a.m. to 5:00 p.m.
- Monday, July 3, 2017 — 9:00 a.m. to 5:00 p.m.
- Tuesday, July 4, 2017 — 9:00 a.m. to 5:00 p.m.
- Wednesday, July 5, 2017 — 9:00 a.m. to 5:00 p.m.
- Thursday, July 6, 2017 — 9:00 a.m. to 5:00 p.m.
- Friday, July 7, 2017 — 9:00 a.m. to 5:00 p.m.
- Saturday, July 8, 2017 — 9:00 a.m. to 1:00 p.m.
- Monday, July 10, 2017 — 9:00 a.m. to 5:00 p.m.
- Tuesday, July 11, 2017 — 9:00 a.m. to 12:00 noon

The application for the Hong Kong Offer Shares will commence on Friday, June 30, 2017 through Tuesday, July 11, 2017, being slightly longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, July 11, 2017, 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 our Bank and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Bank, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (viii) agree to disclose to our 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 advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the 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 our Bank to place your name(s) or the name of the HKSCC Nominees, on our Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Bank and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfill the criteria mentioned in "Personal Collection" section in this prospectus to collect share certificate(s) and/or refund cheque(s);
- (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;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xvii) understand that our Bank and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### Additional Instructions for **YELLOW** Application Forms

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH THE **WHITE FORM eIPO SERVICE**

### General

Individuals who meet the criteria in “— 2. 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](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Bank. If you apply through the designated website, you 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](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, June 30, 2017 until 11:30 a.m. on Tuesday, July 11, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, July 11, 2017 or such later time under “- 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Bank and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “ZHONGYUAN BANK CO., LTD.” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dong Jiang — 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 our Bank, the Joint Global Coordinators and our H Share Registrar.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Bank, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize our Bank to place HKSCC Nominees' name on our Bank's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
  - agree that none of our Bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
  - agree to disclose your personal data to our Bank, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Bank agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Bank's announcement of the Hong Kong Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Bank, for itself and for the benefit of each Shareholder (and so that our 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 our Bank, for itself and for the benefit of each Shareholder and each Director, Supervisor, manager and other senior officer of our Bank (and so that our Bank will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each of the Shareholders and each Director, Supervisor, manager and other senior officer of our 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 our 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;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree with our Bank (on our behalf and for the benefit of each of our shareholders) that H Shares in our Bank are freely transferable by their holders;
- authorize our Bank to enter into a contract on our behalf with each Director and officer of our 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 our 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 number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 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, June 30, 2017	— 9:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Monday, July 3, 2017	— 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Tuesday, July 4, 2017	— 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Wednesday, July 5, 2017	— 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Thursday, July 6, 2017	— 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Friday, July 7, 2017	— 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Monday, July 10, 2017	— 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>
Tuesday, July 11, 2017	— 8:00 a.m. <sup>(1)</sup> to 12:00 noon

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, June 30, 2017 until 12:00 noon on Tuesday, July 11, 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, July 11, 2017, 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.

### **No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Bank and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Personal Data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Bank, the H Share Registrar, the receiving banks, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Bank, the Directors, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers 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

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 Tuesday, July 11, 2017.

### 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 the **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 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 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](http://www.eipo.com.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

### 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 Tuesday, July 11, 2017. 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 Tuesday, July 11, 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

We expect to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, July 18, 2017 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Bank’s website at [www.zybank.com.cn](http://www.zybank.com.cn) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://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.zybank.com.cn](http://www.zybank.com.cn) and the Hong Kong Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Tuesday, July 18, 2017;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, July 18, 2017 to 12:00 midnight on Monday, July 24, 2017;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, July 18, 2017 to Friday, July 21, 2017;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, July 18, 2017 to Thursday, July 20, 2017 at all the receiving banks’ designated branches.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “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 the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications 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 our Bank or our agents exercise our discretion to reject your application:**

Our Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Bank of that longer period within three weeks of the closing date of the application lists.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(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 dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Bank or the Joint Global Coordinators believe that by accepting your application, we 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\$2.53 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" 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 or before Tuesday, July 18, 2017.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- 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 or before Tuesday, July 18, 2017. 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 Wednesday, July 19, 2017 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### **(i) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the 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 Tuesday, July 18, 2017 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 dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 18, 2017, 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 or before Tuesday, July 18, 2017, by ordinary post and at your own risk.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 Tuesday, July 18, 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)**

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant**

Our 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 "— 11. Publication of Results" above. You should check the announcement published by our Bank and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 18, 2017 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 the 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 Tuesday, July 18, 2017, or such other date as notified by our Bank in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, July 18, 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (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 Tuesday, July 18, 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Tuesday, July 18, 2017. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 18, 2017 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 Tuesday, July 18, 2017. 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 Tuesday, July 18, 2017.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report set out on page IA-1 to IA-85, received from the Bank's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



**ACCOUNTANTS' REPORT ON COMBINED FINANCIAL INFORMATION TO THE DIRECTORS OF ZHONGYUAN BANK CO., LTD. AND CITIC CLSA CAPITAL MARKETS LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED, CCB INTERNATIONAL CAPITAL LIMITED AND CMB INTERNATIONAL CAPITAL LIMITED**

**Introduction**

We report on the historical financial information of the banking business (the "Business") carried out by thirteen city commercial banks (hereinafter collectively referred to as the "Predecessor Entities") and their subsidiaries (together, the "Predecessor Entities Group") set out on pages IA-4 to IA-85, which comprises the combined statement of financial position of the Business as of December 22, 2014 and the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Business for the period from January 1, 2014 to December 22, 2014 (the "Predecessor Period"), and a summary of significant accounting policies and other explanatory information (together, the "Combined Financial Information"). The Combined Financial Information set out on pages IA-4 to IA-85 forms an integral part of this report, which has been prepared for inclusion in the prospectus of Zhongyuan Bank Co., Ltd. (the "Bank") dated June 30, 2017 (the "Prospectus") in connection with the initial listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited.

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of China Banking Regulatory Commission (the "CBRC"). The predecessors of the Bank were the Predecessor Entities established in Henan Province as detailed in Note 1 to the Combined Financial Information. The Predecessor Entities had commenced their business operation prior to the commencement of the Predecessor Period. Pursuant to the reorganization initiated by the People's Government of Henan Province, the Bank was established through the consolidation of the Predecessor Entities. Details of the Reorganization are more fully explained in the paragraph headed "Reorganization" in the section "Our History and Development" to the Prospectus.

**Directors' responsibility for the Combined Financial Information**

The directors of the Bank are responsible for the preparation of Combined Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(2) to the Combined Financial Information, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Combined Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Combined Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Combined Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Combined Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Combined Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Combined Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(2) to the Combined Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Combined Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Combined Financial Information gives, for the purpose of this report, a true and fair view of the combined state of affairs of the Business as of December 22, 2014 and the combined results and cash flows of the Business for the Predecessor Period in accordance with the basis of preparation and presentation set out in Note 2(2) to the Combined Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*****Adjustments***

In preparing the Combined Financial Information, no adjustments to the Underlying Combined Financial Statements as defined on page IA-4 have been made.

***Dividends***

We refer to Note 36 to the Combined Financial Information which contains information about the dividends paid by the Predecessor Entities in respect of the Predecessor Period.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

June 30, 2017

## COMBINED FINANCIAL INFORMATION OF THE BUSINESS

Set out below is the Combined Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Business for the Predecessor Period, on which the Combined Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Combined Financial Statements").

COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Period from January 1, 2014 to December 22, 2014
Interest income .....		12,293,252
Interest expense .....		<u>(3,557,549)</u>
<b>Net interest income</b> .....	4	<u>8,735,703</u>
Fee and commission income.....		144,579
Fee and commission expense.....		<u>(52,325)</u>
<b>Net fee and commission income</b> .....	5	<u>92,254</u>
Net trading gains .....	6	133,925
Net gains arising from investment securities .....	7	2,750
Other operating income.....	8	<u>118,356</u>
<b>Operating income</b> .....		9,082,988
Operating expenses .....	9	<u>(3,500,663)</u>
Impairment losses on assets .....	12	<u>(1,969,317)</u>
<b>Operating profit</b> .....		3,613,008
Share of profits of associates .....		<u>2,518</u>
<b>Profit before tax</b> .....		3,615,526
Income tax .....	13	<u>(914,873)</u>
<b>Net profit for the period</b> .....		<u>2,700,653</u>

	Note	Period from January 1, 2014 to December 22, 2014
<b>Net profit for the period</b> .....		2,700,653
<b>Other comprehensive income</b> .....		
Items that may be reclassified subsequently to profit or loss:		
- Available-for-sale financial assets: net movement in the investment revaluation reserve.....	34(a)	67,862
Items that will not be reclassified subsequently to profit or loss:		
- Remeasurement of net defined benefit liability.....	34(b)	(890)
<b>Other comprehensive income, net of tax</b> .....		66,972
<b>Total comprehensive income</b> .....		2,767,625
<b>Net profit attributable to:</b>		
Equity holders of the Predecessor Entities .....		2,676,331
Non-controlling interests.....		24,322
		2,700,653
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Predecessor Entities .....		2,743,303
Non-controlling interests.....		24,322
		2,767,625



## COMBINED STATEMENT OF FINANCIAL POSITION

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	At December 22, 2014
<b>Assets</b>		
Cash and deposits with the central bank.....	15	35,582,404
Deposits with banks and other financial institutions.....	16	7,362,037
Placements with banks and other financial institutions.....	17	1,692
Financial assets at fair value through profit or loss.....	18	2,889,079
Financial assets held under resale agreements.....	19	10,165,206
Loans and advances to customers.....	20	105,007,244
Available-for-sale financial assets.....	21	5,993,888
Held-to-maturity investments.....	22	11,963,320
Debt securities classified as receivables.....	23	16,071,882
Interests in associates.....	24	54,902
Property and equipment.....	25	3,024,916
Deferred tax assets.....	26	1,257,172
Other assets.....	27	2,873,263
<b>Total assets</b> .....		<u>202,247,005</u>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Borrowing from the central bank.....		1,436,815
Deposits from banks and other financial institutions.....	29	5,721,577
Financial assets sold under repurchase agreements.....	30	2,458,000
Deposits from customers.....	31	168,704,301
Income tax payable.....		409,503
Other liabilities.....	32	3,991,224
<b>Total liabilities</b> .....		<u>182,721,420</u>
<b>Equity</b>		
Share capital.....	33	9,294,562
Capital reserve.....	34	1,471,020
Surplus reserve.....	35	1,499,047
General reserve.....	35	3,558,521
Retained earnings.....		3,298,655
Total equity attributable to equity holders of the Predecessor Entities.....		19,121,805
Non-controlling interests.....		403,780
<b>Total equity</b> .....		<u>19,525,585</u>
<b>Total liabilities and equity</b> .....		<u>202,247,005</u>

**COMBINED STATEMENT OF CHANGES IN EQUITY**  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity holders of the Predecessor Entities						Non- controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at January 1, 2014.....	9,294,562	1,404,048	1,233,288	1,874,075	3,532,646	17,338,619	393,001	17,731,620
Changes in equity for the period:								
Net profit for the period.....	—	—	—	—	2,676,331	2,676,331	24,322	2,700,653
Other comprehensive income.....	—	66,972	—	—	—	66,972	—	66,972
Total comprehensive income.....	—	66,972	—	—	2,676,331	2,743,303	24,322	2,767,625
Appropriation of profits								
- Appropriation to surplus reserve.....	36	—	265,759	—	(265,759)	—	—	—
- Appropriation to general reserve.....	36	—	—	1,684,446	(1,684,446)	—	—	—
- Appropriation to equity holders.	36	—	—	—	(960,117)	(960,117)	(13,543)	(973,660)
Subtotal.....	—	—	265,759	1,684,446	(2,910,322)	(960,117)	(13,543)	(973,660)
Balance at December 22, 2014 .....	9,294,562	1,471,020	1,499,047	3,558,521	3,298,655	19,121,805	403,780	19,525,585

## COMBINED STATEMENT OF CASH FLOWS

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	<u>Period from January 1, 2014 to December 22, 2014</u>
<b>Cash flows from operating activities</b>	
Profit before tax .....	3,615,526
<i>Adjustments for:</i>	
- Impairment losses on assets .....	1,969,317
- Depreciation and amortization .....	414,288
- Depreciation of investment properties .....	6,985
- Unwinding of discount .....	(42,052)
- Net gains on disposal of property and equipment .....	(13,505)
- Net gains on disposal of repossessed assets .....	(21,213)
- Net trading gains on financial instruments at fair value through profit or loss .....	(133,925)
- Net gains on disposal of investment securities .....	(2,750)
- Share of profits of associates .....	(2,518)
	<u>5,790,153</u>
<i>Changes in operating assets</i>	
Net increase in deposits with the central bank .....	(6,051,549)
Net decrease in deposits and placements with banks and other financial institutions .....	625,588
Net increase in loans and advances to customers .....	(16,575,380)
Net decrease in financial assets held under resale agreements .....	3,939,391
Net decrease in financial assets at fair value through profit or loss .....	376,711
Net decrease in other operating assets .....	<u>3,550,546</u>
	<u>(14,134,693)</u>
<i>Changes in operating liabilities</i>	
Net increase in borrowing from central bank .....	608,324
Net decrease in deposits from banks and other financial institutions .....	(3,543,423)
Net decrease in financial assets sold under repurchase agreements .....	(2,116,267)
Net increase in deposits from customers .....	19,157,044
Income tax paid .....	(989,673)
Net decrease in other operating liabilities .....	<u>(1,598,895)</u>
	<u>11,517,110</u>
<b>Net cash flows generated from operating activities .....</b>	<u><u>3,172,570</u></u>

	Note	Period from January 1, 2014 to December 22, 2014
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments .....		49,633,134
Gains received from investment activities .....		2,750
Proceeds from disposal of property and equipment and other assets .		113,362
Payments on acquisition of investments .....		(54,831,305)
Payments on acquisition of property and equipment, intangible assets and other assets .....		<u>(392,638)</u>
<b>Net cash flows used in investing activities</b> .....		<u>(5,474,697)</u>
<b>Cash flows from financing activities</b>		
Dividends paid.....		<u>(854,768)</u>
<b>Net cash flows used in financing activities</b> .....		<u>(854,768)</u>
<b>Net decrease in cash and cash equivalents</b> .....	39(a)	(3,156,895)
<b>Cash and cash equivalents as at January 1, 2014</b> .....		<u>37,736,974</u>
<b>Cash and cash equivalents as at December 22, 2014</b> .....	39(b)	<u>34,580,079</u>
Interest received .....		<u>12,342,771</u>
Interest paid.....		<u>(3,235,972)</u>

## NOTES TO THE COMBINED FINANCIAL INFORMATION

*(Expressed in thousands of Renminbi, unless otherwise stated)*

## 1 Background information

Pursuant to the Guidance Opinions of the State Council on Supporting Henan Province to Expedite the Development of Central Plains Economic Zone (Guofa [2011] 32) (《國務院關於支持河南省加快建設中原經濟區的指導意見》國發[2011]32號) and the Overall Plan for the Reform and Reorganization of Certain City Commercial Banks in Henan Province (Yuzhengban [2013] 100) (《河南省部分城市商業銀行改革重組工作總體方案》豫政辦[2013]100號) promulgated by The People's Government of Henan Province, Zhongyuan Bank Co., Ltd. (the "Bank") was formed on December 23, 2014 through the consolidation of the thirteen city commercial banks (the "Reorganization").

All the thirteen city commercial banks (collectively, the "Predecessor Entities"), through the resolutions of their respective general meetings in 2013 and early 2014, agreed to merge into the Bank. A dedicated office (the "Leading Group Office") was set up on December 10, 2013 to act as the overall management body of the Predecessor Entities, regulate and supervise the Business of the Predecessor Entities prior to the completion of the Reorganization. Pursuant to the Merger and Reorganization Agreement of Certain City Commercial Banks in Henan Province entered into by and between the Predecessor Entities on September 3, 2014, the equity of the Predecessor Entities shall be converted into the equity of the Bank based on the net assets value of each of the Predecessor Entities as at December 31, 2013. In addition, the vast majority of the profits of each of the Predecessor Entities during the Predecessor Period have been retained by the Bank.

The banking business carried out by the Predecessor Entities (the "Business"), including all the assets and liabilities of the Predecessor Entities, was transferred to the Bank upon the establishment of the Bank on December 23, 2014.

The particulars of the thirteen commercial banks merged to form the Bank are as follows:

Name of the banks	Place and date of incorporation	Share capital in	Principal activities
		thousands of RMB at January 1, 2014 and December 22, 2014	
Kaifeng Commercial Bank Co., Ltd.....	Kaifeng, August 25, 1998	726,000.00	Commercial Bank
Anyang Bank Co., Ltd. ....	Anyang, July 19, 2002	556,209.49	Commercial Bank
Hebi Bank Co., Ltd.....	Hebi, November 7, 2006	322,437.37	Commercial Bank
Xinxiang Bank Co., Ltd. ....	Xinxiang, August 19, 1997	1,007,989.49	Commercial Bank
Puyang Bank Co., Ltd.....	Puyang, December 31, 2006	620,836.00	Commercial Bank
Xuchang Bank Co., Ltd.....	Xuchang, October 16, 2005	1,002,280.00	Commercial Bank
Luohe Bank Co., Ltd. ....	Luohe, September 20, 2002	705,203.80	Commercial Bank
Sanmenxia Bank Co., Ltd. .	Sanmenxia, April 10, 2002	1,030,493.84	Commercial Bank
Nanyang Bank Co., Ltd.....	Nanyang, December 30, 1998	396,562.52	Commercial Bank
Shangqiu Bank Co., Ltd.....	Shangqiu, September 30, 2006	852,984.23	Commercial Bank

Name of the banks	Place and date of incorporation	Share capital in thousands of RMB at January 1, 2014 and December 22, 2014	Principal activities
Xinyang Bank Co., Ltd. ....	Xinyang, December 10, 2002	625,974.21	Commercial Bank
Zhoukou Bank Co., Ltd. ....	Zhoukou, September 3, 2009	658,797.81	Commercial Bank
Zhumadian Bank Co., Ltd. .	Zhumadian, May 22, 2002	788,793.29	Commercial Bank

The principal activities of the Predecessor Entities are the provision of corporate and personal deposits, loans and advances, settlement and other banking services as approved by the CBRC.

## 2 Significant accounting policies

### (1) Statement of compliance

The Combined Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (the “IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”). The Combined Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Combined Financial Information, the Predecessor Entities have adopted all applicable new and revised IFRSs which are effective for the period beginning on January 1, 2014 and have been consistently applied during the Predecessor Period. In addition, a number of new and amendments to IFRSs which became effective for annual period beginning on January 1, 2015 and January 1, 2016 have been applied throughout the Predecessor Period in advance of their respective effective dates. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended December 31, 2016 are set out below:

	<u>Effective for accounting period beginning on or after</u>
Amendments to IAS 7, <i>Disclosure Initiative</i> .....	1 January 2017
Amendments to IAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i> .....	1 January 2017
Amendments to IFRS 4, <i>Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts</i> .....	1 January 2018
Amendments to IAS 40, <i>Transfers of investment property</i> .....	1 January 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i> .....	1 January 2018
IFRS 9, <i>Financial instruments</i> .....	1 January 2018
IFRS15, <i>Revenue from contracts with customers</i> .....	1 January 2018
Amendments to IFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i> .....	1 January 2018
IFRS16, <i>Leases</i> .....	1 January 2019

The directors of the Bank are in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the result of operations and financial position of the Business, except for the following:

*IFRS 9 Financial Instruments*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalized version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalized version of IFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of IFRS 9 (2014) that are relevant to the Predecessor Entities are:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use

information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

The Directors of the Bank are analyzing its business models, loans and other financial instruments' contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Bank's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the risk management organization, process and key functions, budgeting and performance review, as well as the IT systems. The Directors of the Bank are starting to carry out an assessment of the need for any system modification related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training. However, a more detailed analysis is required to determine the extent of the impact on the Business' operating results and financial position.

#### *IFRS 15 Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The Directors of the Bank assess that adopting IFRS 15 would not have a material impact to the Business' financial information.

#### *IFRS 16 Leases*

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value, in the statement of financial position.

Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at December 22, 2014, the Predecessor Entities had non-cancellable operating lease commitments of RMB 341.84 million, see Note 45 (c). However, The Directors of the Bank is in the process of assessing to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Business' profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The directors of the Bank do not expect the adoption of IFRS 16 as compared with



the current accounting policy will result in significant impact on the Business' results but it is expected that certain portion of these commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities under IFRS16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Directors of the Bank expects that, as a lessor, there will be no significant impact on the financial information.

The accounting policies set out below have been applied consistently to all periods presented in the Combined Financial Information.

(2) *Basis of preparation and presentation*

The Combined Financial Information has been prepared to present the financial information of the Business for the Predecessor Period which was transferred to the Bank on December 23, 2014 upon the completion of the Reorganization as detailed in Note 1. Although the Reorganization has not been completed until the end of the Predecessor Period, as set out in Note 1, the Business has been centrally managed and governed by the Leading Group Office throughout the Predecessor Period; in addition, pursuant to the terms of the reorganization agreement, the equity owners of each of the Predecessor Entities were already substantially and beneficially interested in the combined results of the overall Business during the Predecessor Period notwithstanding that the Reorganization was not complete until December 23, 2014.

In formulating the basis of preparation of the financial information of the Business for the Predecessor Period, the Directors of the Bank noted that currently the IFRSs neither define nor have a definitive principle on "reporting entity" or "combined financials statements", and have applied judgement in accordance with the relevant guidance under International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" to formulate a basis of preparation that reflects the economic substance of the Business and represents faithfully the financial position, financial performance and cash flows of the Business. Additionally, the Directors of the Bank have taken into account the need to provide better continuity and comparability between the financial information of the Business for Predecessor Period and that of the period from December 23, 2014 to December 31, 2016, that is, after the completion of the Reorganization. Accordingly, the financial information of the Business carried out by the Predecessor Entities for the Predecessor Period has been prepared on a combined basis.

The combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined cash flow statement have been prepared to present the combined results of operations of the Business of the Predecessor Entities for the Predecessor Period. The combined statement of financial position as of December 22, 2014 has been prepared to present the combined state of affairs of the Business of Predecessor Entities as at December 22, 2014. The Predecessor Entities have adopted December 31 as their financial year end date.

(3) *Basis of measurement*

The Combined Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis except of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(9).

**(4) *Use of estimates and judgements***

The preparation of the Combined 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 associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have a significant effect on the Combined Financial Information and major sources of estimation uncertainty are discussed in Note 2(27).

**(5) *Subsidiaries and non-controlling interests***

Subsidiaries are entities controlled by the Predecessor Entities Group. The Predecessor Entities control 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 their power over the entity. When assessing whether the Predecessor Entities have power, only substantive rights (held by the Predecessor Entities and other parties) are considered.

An investment in a subsidiary is consolidated from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Predecessor Entities, and in respect of which the Predecessor Entities have not agreed any additional terms with the holders of those interests which would result in the Predecessor Entities as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. For each business combination, the Predecessor Entities 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 combined statement of financial position within equity, separately from equity attributable to the equity holders of the Predecessor Entities. Non-controlling interests in the results of the Predecessor Entities are presented on the face of the combined statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the Predecessor Period between non-controlling interests and the equity holders of the Predecessor Entities.

Changes in the Predecessor Entities Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Predecessor Entities lose control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(6)).

In the Predecessor Period's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(17)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(6) *Associates and joint ventures*

An associate is an entity in which the Predecessor Entities 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 Predecessor Entities 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 under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Predecessor Entities Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Predecessor Entities Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(17)). Any acquisition-date excess over cost, the Predecessor Entities Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Predecessor Entities Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the combined statement of profit or loss and other comprehensive income.

When the Predecessor Entities Group's share of losses exceeds its interest in the associate or the joint venture, the Predecessor Entities Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Predecessor Entities have incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Predecessor Entities Group's interest is the carrying amount of the investment under the equity method together with the Predecessor Entities Group's long-term interests that in substance form part of the Predecessor Entities Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Predecessor Entities and their associates and joint venture are eliminated to the extent of the Predecessor Entities Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Predecessor Entities cease to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Predecessor Entities' statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

**(7) *Translation of foreign currencies***

When the Predecessor Entities receive capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on 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 at the dates of transactions.

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 items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the Predecessor Period. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date 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 capital reserve.

**(8) *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, financial assets held under resale agreements 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.

**(9) *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 Predecessor Entities become a party to the contractual provisions of a financial instrument.

The Predecessor Entities classify 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 (including financial assets or financial liabilities held for trading).

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, a financial instrument 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 contain 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.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Predecessor Entities have the positive intention and ability to hold to maturity, other than

- (a) those that the Predecessor Entities, upon initial recognition, designate 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 Predecessor Entities with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- (a) those that the Predecessor Entities intend to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Predecessor Entities, upon initial recognition, designate as at fair value through profit or loss or as available-for-sale; or

- (c) those where the Predecessor Entities may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, debt securities classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. 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 the profit or loss.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at 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 Predecessor Entities at the end of the Predecessor Period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the 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 Predecessor Entities use 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.

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.

*Homogeneous groups of loans not considered individually significant*

For homogeneous groups of loans that are not considered individually significant, the Predecessor Entities adopt a flow rate methodology to collectively assess impairment losses. This methodology utilizes a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

*Individually assessed loans with no objective evidence of impairment on an individual basis*

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of the Predecessor Period but which will not be individually identified as such until sometime in the future.

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Predecessor Entities operate.

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 Predecessor Entities periodically review and assess the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was 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 Predecessor Entities determine that loans and receivables have no reasonable prospect of recovery after the Predecessor Entities have completed all the necessary legal or other claim proceedings, the loans and receivables are written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loans and receivables written off are 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 Predecessor Entities have 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 the 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.

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 measured 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 Predecessor Entities have access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Predecessor Period. Where other pricing models are used, inputs are based on market data at the end of the Predecessor Period.

In estimating the fair value of a financial asset and financial liability, the Predecessor Entities consider all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Predecessor Entities obtain market data from the same market where the financial instrument was originated or purchased.

(iv) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- The Predecessor Entities transfer substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Predecessor Entities neither transfer nor retain substantially all the risks and rewards of ownership of the financial asset, but retains control, the Predecessor Entities continue to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Predecessor Entities and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Predecessor Entities have a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(10) *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.

Interest earned on reverse repurchase 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.

(11) *Investment in subsidiaries*

In the Predecessor Entities Group's combined financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(5).

In the Predecessor Entities' financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Predecessor Entities acquire the investment by cash. The investment is stated at cost less impairment loss (Note 2(17)) in the

statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Predecessor Entities recognize its share of the cash dividends or profit distribution declared by the investees as investment income.

(12) *Investment property*

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(17)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	<u>Estimated useful life</u>	<u>Estimated rate of residual value</u>	<u>Depreciation rate</u>
Premises .....	20 years	3%	4.85%

(13) *Property and equipment and construction in progress*

Property and equipment are assets held by the Predecessor Entities 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(17)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(17)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. 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 Predecessor Entities in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

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:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises .....	20 years	3%	4.85%
Motor vehicles .....	5 years	3%	19.40%
Others .....	3-10 years	3%	9.70%-32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(14) *Operating leases*

Payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(15) *Intangible assets*

The intangible assets of the Predecessor Entities have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(17)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30-50 years
Computer software	5 years

(16) *Repossessed assets*

Repossessed assets are physical assets or property rights obtained by the Predecessor Entities from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(17) *Provision for impairment losses on non-financial assets*

The carrying amounts of the following assets are reviewed at the end of the Predecessor Period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment;
- construction in progress;
- intangible assets;
- investment property measured using a cost model; and
- investment in subsidiaries and associates.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("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 Predecessor Entities also consider how management monitors the Predecessor Entities' operations and how management makes decisions about continuing or disposing of the Predecessor Entities' assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. 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 Predecessor Entities determine the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell 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 present value of expected future cash flows 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 expected future cash flows, the useful life and the discount rate 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.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

(18) *Employee benefits*

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Predecessor Entities include the social pension schemes.

*Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, the Predecessor Entities have participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Predecessor Entities make contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

*Housing fund and other social insurances*

In addition to the retirement benefits above, the Predecessor Entities have joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Predecessor Entities make 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**Early retirement plan*

The Predecessor Entities provide early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

*Supplementary retirement plan*

The Predecessor Entities provide a supplementary retirement plan to its eligible employees. The Predecessor Entities' obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Predecessor Entities are committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Predecessor Entities have no significant responsibilities to pay any other retirement benefits to employees.

*(19) Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax

assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Predecessor Entities control the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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 enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the Predecessor Entities have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the Predecessor Entities intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(20) *Financial guarantees, provisions and contingent liabilities*****(i) *Financial guarantees***

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“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 as stated in Note 2(20)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Predecessor Entities under the guarantee, and the amount of that claim on the Predecessor Entities are 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 Predecessor Entities have 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 determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

**(21) *Fiduciary activities***

The Predecessor Entities act in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Predecessor Entities 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 Predecessor Entities enter into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Predecessor Entities, and The Predecessor Entities grant loans to third parties (“entrusted loans”) under instructions of the customers. As the Predecessor Entities do 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.

**(22) *Income recognition***

Income is the gross inflow of economic benefit in the periods arising in the course of the Predecessor Entities’ 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 Predecessor Entities, 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 Predecessor Period. 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 Predecessor Entities estimate 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.

(ii) *Fee and commission income*

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

(iii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Predecessor Entities will comply with the conditions attaching to them. Grants that compensate the Predecessor Entities for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Predecessor Entities for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) *Other income*

Other income is recognized on an accrual basis.

**(23) *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.

**(24) Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of the Predecessor Period are not recognized as a liability at the end of the Predecessor Period but disclosed separately in the notes to the Combined Financial Information.

**(25) Related parties**

- (a) A person, or a close member of that person's family, is related to the Predecessor Entities if that person:
  - (i) has control or joint control over the Predecessor Entities Group;
  - (ii) has significant influence over the Predecessor Entities Group; or
  - (iii) is a member of the key management personnel of the Predecessor Entities or the Predecessor Entities Group's parent.
- (b) An entity is related to the Predecessor Entities if any of the following conditions applies:
  - (i) The entity and the Predecessor Entities are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Predecessor Entities or an entity related to the Predecessor Entities Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Predecessor Entities or to the Predecessor Entities Group's parent.

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.

**(26) Segment reporting**

Operating segments, and the amounts of each segment item reported in the Combined Financial Information, are identified from the financial information provided regularly to the Predecessor Entities' most senior executive management for the purposes of allocating resources to, and assessing the performance of the Predecessor Entities' various lines of business and geographical locations.

As described in the Note 1, during the Predecessor Period, the Leading Group Office had been overall management body of the Predecessor Entities during the Predecessor Period, as the ultimate decision-making authority and key management responsibilities of the Predecessor Entities.

Operating segment was identified on the basis of internal reports that were regularly reviewed by the Leading Group Office for the purposes of resource allocation and performance assessment. The Leading Group Office reviewed financial information of each bank without segregating different activities.

*(27) Significant accounting estimates and judgements*

The preparation of Combined 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) Provision for impairment losses on loans and advances to customers and investments (available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables)*

The Predecessor Entities review portfolios of loans and advances to customers and 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 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 Predecessor Entities will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

*(ii) Fair value of financial instruments*

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established

by the Predecessor Entities make maximum use of market input and rely as little as possible on the Predecessor Entities' specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Predecessor Entities review the above estimations and assumptions periodically and makes adjustment if necessary.

(iii) *The classification of the held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Predecessor Entities have 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 Predecessor Entities' 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 Predecessor Entities carefully evaluate the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's 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 allow the deferred tax assets to be recovered.

(v) *Impairment of non-financial assets*

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

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

(vi) *Depreciation and amortization*

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

(vii) *Determination of control over investees*

Management applies its judgement to determine whether the control indicators set out in Note 2(5) indicate that the Predecessor Entities control a non-principal guaranteed wealth management product and an asset management plan.

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

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Predecessor Entities have an interest or for which it is a sponsor, see Note 37.

### 3 **Taxes**

The Predecessor Entities' main applicable taxes and tax rates are as follows:

(a) ***Business tax***

Business tax is charged at 3%-5% on taxable income.

(b) ***Urban maintenance and construction tax***

Urban maintenance and construction tax is calculated as 5%-7% of business tax.

(c) ***Education surcharge***

Education surcharge is calculated as 3% of business tax.

(d) ***Local education surcharge***

Local education surcharge is calculated as 2% of business tax.

(e) ***Income tax***

The income tax is calculated on taxable income. The statutory income tax rate is 25%.

## 4 Net interest income

	Period from January 1, 2014 to December 22, 2014
<b>Interest income arising from</b>	
Deposits with the central bank .....	457,600
Deposits with banks and other financial institutions .....	214,010
Loans and advances to customers	
- Corporate loans and advances .....	6,637,238
- Personal loans and advances .....	1,674,243
- Discounted bills .....	918,024
Financial assets held under resale agreements .....	443,529
Investments .....	1,948,608
Sub-total .....	<u>12,293,252</u>
<b>Interest expense arising from</b>	
Borrowing from the central bank .....	(29,267)
Deposits and placements from banks and other financial institutions .....	(354,674)
Deposits from customers	
- Corporate customers .....	(1,156,956)
- Individual customers .....	(1,943,811)
Financial assets sold under repurchase agreements .....	<u>(72,841)</u>
Sub-total .....	<u>(3,557,549)</u>
<b>Net interest income</b> .....	<u><u>8,735,703</u></u>

Total interest income arising from financial assets that are not at fair value through profit or loss for the period from January 1, 2014 to December 22, 2014 amounted to RMB 12,036.77 million.

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the period from January 1, 2014 to December 22, 2014 amounted to RMB 3,557.55 million.

Interest income arising from impaired financial assets for the period from January 1, 2014 to December 22, 2014 amounted to RMB 42.05 million.

## 5 Net fee and commission income

	<u>Period from January 1, 2014 to December 22, 2014</u>
<b>Fee and commission income</b>	
Settlement and clearing services fees .....	69,771
Agency services fees.....	32,564
Bank card services fees.....	26,682
Advisory and consulting fees .....	6,257
Wealth management business fees .....	6,082
Acceptance and guarantee services fees .....	2,328
Custodial services fees.....	895
Sub-total .....	<u>144,579</u>
<b>Fee and commission expense</b> .....	<u>(52,325)</u>
<b>Net fee and commission income</b> .....	<u><u>92,254</u></u>

## 6 Net trading gains

	<u>Period from January 1, 2014 to December 22, 2014</u>
Net gains from debt securities.....	<u><u>133,925</u></u>

Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of financial assets held for trading.

## 7 Net gains arising from investment securities

	<u>Period from January 1, 2014 to December 22, 2014</u>
Net gains on disposal of available-for-sale financial assets .....	<u><u>2,750</u></u>

## 8 Other operating income

	<u>Period from January 1, 2014 to December 22, 2014</u>
Rental income .....	31,143
Net gains on disposal of repossessed assets .....	21,213
Net gains on disposal of property and equipment .....	13,505
Government grants .....	14,599
Others .....	<u>37,896</u>
Total .....	<u><u>118,356</u></u>

## 9 Operating expenses

	<u>Period from January 1, 2014 to December 22, 2014</u>
Staff costs	
- Salaries bonuses and allowances .....	1,306,417
- Social insurance and annuity .....	172,736
- Housing allowances .....	60,448
- Staff welfares .....	57,399
- Employee education expenses and labor union expenses .....	28,362
- Supplementary retirement benefits .....	14,042
- Others .....	<u>14,622</u>
Sub-total .....	<u>1,654,026</u>
Business tax and surcharges .....	599,671
Office expenses .....	469,051
Depreciation and amortization .....	414,288
Rental and property management expenses .....	72,620
Other general and administrative expenses .....	<u>291,007</u>
Total .....	<u><u>3,500,663</u></u>

Auditors' remuneration was RMB 1.93 million for the period from January 1, 2014 to December 22, 2014.



## 10 Director's and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors of the Bank who held office during the Predecessor Period are as follows:

	Period from January 1, 2014 to December 22, 2014						
	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which remuneration payment deferred	Actual amount of paid (pre-tax)
<b>Executive director</b>							
Hu Xiangyun.....	—	354	1,100	39	1,493	147	1,346
<b>Supervisors</b>							
Qin Jianhua.....	—	136	297	116	549	—	549
Si Qun .....	—	15	189	40	244	—	244
<b>Total .....</b>	<u>—</u>	<u>505</u>	<u>1,586</u>	<u>195</u>	<u>2,286</u>	<u>147</u>	<u>2,139</u>

There was no amount paid during the Predecessor Period to the directors of the Bank in connection with their retirement from employment or compensation for loss of office with the Predecessor Entities, or inducement to join the Predecessor Entities. There was no arrangement under which a director or supervisor of the Bank waived or agreed to waive any remuneration during the Predecessor Period.

## 11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, 1 was the director of the Bank for the Predecessor Period, whose emoluments are disclosed in Note 10.

The aggregate of the emoluments in respect of remaining individuals for the Predecessor Period are as follows:

	Period from January 1, 2014 to December 22, 2014
Salaries and other emoluments .....	2,200
Discretionary bonuses .....	4,098
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.....	<u>304</u>
<b>Total .....</b>	<u><u>6,602</u></u>

The individual whose emoluments before individual income tax are within the following bands is set out below:

	<u>Period from January 1, 2014 to December 22, 2014</u>
HKD 1,500,001 - 2,000,000 .....	2
HKD 2,000,001 - 2,500,000 .....	1
HKD 2,500,001 - 3,000,000 .....	<u>1</u>
	<u>4</u>

## 12 Impairment losses on assets

	<u>Period from January 1, 2014 to December 22, 2014</u>
Loans and advances to customers.....	1,541,267
Debt securities classified as receivables.....	284,512
Others.....	<u>143,538</u>
Total.....	<u>1,969,317</u>

## 13 Income tax

### (a) Income tax:

	<u>Note</u>	<u>Period from January 1, 2014 to December 22, 2014</u>
Current tax .....		1,179,945
Deferred tax.....	26(b)	<u>(265,072)</u>
Total.....		<u>914,873</u>

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	Period from January 1, 2014 to December 22, 2014
Profit before tax .....		3,615,526
Statutory tax rate .....		25%
Income tax calculated at statutory tax rate .....		903,882
Non-deductible expenses		
- Staff costs .....		3,181
- Others .....		4,617
		7,798
Non-taxable income .....	(i)	(8,697)
Current period losses for which no deferred tax assets recognized .....		11,890
Income tax .....		914,873

(i) The non-taxable income mainly represents the interest income from the PRC government bonds.

#### 14 Basic and diluted earnings per share

Earnings per share information is not presented as the financial information is prepared on a combined basis.

#### 15 Cash and deposits with the central bank

	Note	At December 22, 2014
Cash on hand .....		1,460,181
Deposits with the central bank		
- Statutory deposit reserves .....	15(a)	17,807,922
- Surplus deposit reserves .....	15(b)	15,650,765
- Fiscal deposits .....		663,536
Sub-total .....		34,122,223
Total .....		35,582,404

- (a) The Predecessor Entities place statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the Predecessor Period, the statutory deposit reserve ratios applicable to the Predecessor Entities were as follows:

	<u>At December 22, 2014</u>
Reserve ratio for RMB deposits .....	<u>17.50%</u>

The statutory deposit reserves are not available for the Predecessor Entities' daily business. The subsidiaries of the Predecessor Entities are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

#### 16 Deposits with banks and other financial institutions

*Analyzed by type and location of counterparty*

	<u>At December 22, 2014</u>
Deposits in mainland China	
- Banks.....	7,079,273
- Other financial institutions.....	<u>282,764</u>
Total .....	<u>7,362,037</u>

#### 17 Placements with banks and other financial institutions

*Analyzed by type and location of counterparty*

	<u>At December 22, 2014</u>
Placements in mainland China	
- Banks.....	6,413
- Other financial institutions.....	<u>14,983</u>
Total .....	21,396
Less: Provision for impairment losses .....	<u>(19,704)</u>
Net carrying amount .....	<u>1,692</u>

## 18 Financial assets at fair value through profit or loss

	At December 22, 2014
Debt securities held for trading purpose	
- Government .....	255,806
- Policy banks .....	952,174
- Banks and other financial institutions.....	130,326
- Corporate .....	1,550,773
Total .....	<u>2,889,079</u>
- Listed .....	727,378
- Unlisted .....	2,161,701
Total .....	<u>2,889,079</u>

## 19 Financial assets held under resale agreements

## (a) Analyzed by type and location of counterparty

	At December 22, 2014
In mainland China	
- Banks.....	7,447,206
- Other financial institutions.....	2,718,000
Total .....	<u>10,165,206</u>

## (b) Analyzed by type of security held

	At December 22, 2014
Debt securities .....	9,670,280
Discounted bills .....	494,926
Total .....	<u>10,165,206</u>

## 20 Loans and advances to customers

## (a) Analyzed by nature

	At December 22, 2014
Corporate loans and advances .....	70,468,220
Personal loans and advances	
- Personal business loans .....	14,714,090
- Residential and commercial mortgage loans .....	4,332,849
- Personal consumption loans .....	4,675,064
- Others .....	204,004
Sub-total .....	23,926,007
Discounted bills .....	15,527,450
Gross loans and advances to customers .....	109,921,677
Less: Provision for impairment losses	
- Individually assessed .....	(974,734)
- Collectively assessed .....	(3,939,699)
Total provision for impairment losses .....	(4,914,433)
Net loans and advances to customers .....	105,007,244

(b) *Analyzed by industry sector*

	At December 22, 2014		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	27,225,437	24.77%	8,434,871
Wholesale and retail trade.....	13,870,522	12.62%	7,753,441
Real estate.....	6,779,851	6.17%	6,009,126
Construction.....	5,498,336	5.00%	2,799,697
Agriculture, forestry, animal husbandry and fishery.....	3,221,907	2.93%	1,098,940
Renting and business activities.....	2,236,257	2.03%	899,950
Education.....	2,190,431	1.99%	1,076,860
Accommodation and catering.....	1,529,137	1.39%	840,610
Water, environment and public utility.....	1,283,308	1.17%	428,980
Production and supply of electric power, gas and water.....	1,273,608	1.16%	333,890
Transportation, storage and postal services.....	1,235,248	1.12%	693,500
Mining.....	712,421	0.65%	381,201
Others.....	3,411,757	3.10%	1,125,388
Sub-total of corporate loans and advances.....	70,468,220	64.10%	31,876,454
Personal loans and advances.....	23,926,007	21.77%	13,690,992
Discounted bills.....	15,527,450	14.13%	15,263,915
Gross loans and advances to customers.....	<u>109,921,677</u>	<u>100%</u>	<u>60,831,361</u>

As at the end and during the Predecessor Period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At December 22, 2014				Written-off during the period
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	
Manufacturing .....	937,825	(563,808)	(1,149,344)	(791,132)	50,829
Wholesale and retail trade.....	277,068	(166,784)	(459,423)	(242,891)	62,788

(c) *Analyzed by type of collateral*

	At December 22, 2014
Unsecured loans .....	1,645,190
Guaranteed loans .....	47,445,126
Collateralised .....	40,126,775
Pledged .....	20,704,586
Gross loans and advances to customers .....	109,921,677
Less: Provision for impairment losses	
- Individually assessed.....	(974,734)
- Collectively assessed.....	(3,939,699)
Total provision for impairment losses .....	(4,914,433)
Net loans and advances to customers .....	105,007,244



(d) *Overdue loans analyzed by overdue period*

	At December 22, 2014				Total
	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	
Unsecured loans.....	76,221	41,225	5,091	5,663	128,200
Guaranteed loans .....	3,373,830	1,229,236	469,381	143,320	5,215,767
Collateralised .....	2,457,710	470,931	427,322	104,373	3,460,336
Pledged.....	542,648	128,126	8,533	1,790	681,097
Total .....	<u>6,450,409</u>	<u>1,869,518</u>	<u>910,327</u>	<u>255,146</u>	<u>9,485,400</u>
As a percentage of gross loans and advances to customers...	<u>5.87%</u>	<u>1.70%</u>	<u>0.83%</u>	<u>0.23%</u>	<u>8.63%</u>

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(e) *Loans and advances and provision for impairment losses*

	At December 22, 2014				Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note(ii))		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	107,776,167	492,814	1,652,696	109,921,677	1.95%
Less: Provision for impairment losses .....	<u>(3,664,370)</u>	<u>(275,329)</u>	<u>(974,734)</u>	<u>(4,914,433)</u>	
Net loans and advances to customers .....	<u>104,111,797</u>	<u>217,485</u>	<u>677,962</u>	<u>105,007,244</u>	

*Notes:*

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. 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 Note (i) and (ii) above, are set out in Note 42(a).
- (iv) As at December 22, 2014, impaired loans and advances of the Predecessor Entities for which the impairment allowances were individually assessed amounted to RMB 1,652.70 million. The covered portion and uncovered portion of these loans and advances were RMB 467.67 million and RMB 1,185.03 million respectively. The fair value of collateral held against these loans and advances amounted to RMB 217.32 million. As at December 22, 2014, the individual impairment allowances made for these loans and advances were RMB 974.73 million.
- (f) *Movements of provision for impairment losses*

	Period from January 1, 2014 to December 22, 2014			Total
	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	
As at January 1 .....	2,915,014	171,825	522,487	3,609,326
Charge for the period.....	749,356	113,932	848,980	1,712,268
Release for the period.....	—	—	(171,001)	(171,001)
Recoveries .....	—	536	11,089	11,625
Write-offs .....	—	(10,964)	(178,769)	(189,733)
Transfer out .....	—	—	(16,000)	(16,000)
Unwinding of discount.....	—	—	(42,052)	(42,052)
As at December 22 .....	<u>3,664,370</u>	<u>275,329</u>	<u>974,734</u>	<u>4,914,433</u>

## 21 Available-for-sale financial assets

	Note	At December 22, 2014
Equity investments at cost		
- unlisted .....	21(a)	22,476
Debt securities		
- Government .....		53,335
- Policy banks .....		1,239,332
- Banks and other financial institutions.....		334,380
- Corporate .....		173,046
Subtotal .....		1,800,093
Listed .....		53,335
Unlisted .....		1,746,758
Investment management products managed by securities companies and trust plans		
- unlisted .....		556,850
Wealth management products issued by financial institutions		
- unlisted .....		1,858,837
Investment portfolio managed by financial institutions		
- unlisted .....	21(b)	1,755,632
Total .....		<u>5,993,888</u>

*Notes:*

- (a) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.
- (b) Investment portfolio managed by financial institutions represented investments in funds, bonds, trust schemes, and wealth management products.
- (c) As at the end of the Predecessor Period, certain available-for-sale financial assets were pledged for repurchase agreements (Note 28(a)). No other investments were subject to material restrictions on the realization.

22 **Held-to-maturity investments***Analyzed by type and location of issuers*

	Note	At December 22, 2014
Debt securities issued by the following institutions in mainland China		
- Government .....		1,354,241
- Policy banks .....		8,946,550
- Banks and other financial institutions.....		310,426
- Corporate .....		1,352,103
Total .....	22(a)	<u>11,963,320</u>
Listed .....		1,322,258
Unlisted .....		10,641,062
Total .....	22(a)	<u>11,963,320</u>
Fair value .....		<u>11,970,980</u>

*Notes:*

- (a) As at the end of the Predecessor Period, certain held-to-maturity investments were pledged as security for repurchase agreements (Note 28(a)).
- (b) The Predecessor Entities did not dispose of material held-to-maturity debt investments prior to their maturity dates during the Predecessor Period.

23 **Debt securities classified as receivables***Analyzed by type and location of issuers*

	At December 22, 2014
Wealth management products issued by financial institutions .....	153,798
Investment management products managed by securities companies and trust plans .....	<u>16,301,107</u>
Total .....	16,454,905
Less: Provision for impairment losses .....	<u>(383,023)</u>
Net carrying amount .....	<u>16,071,882</u>

## 24 Interests in associates

	At December 22, 2014
Interests in associates .....	<u>54,902</u>

The following list contains the Predecessor Entities Group's associates, all of which are individually immaterial to the Predecessor Entities Group and are unlisted corporate entities whose quoted market price is not available:

Name	Percentages of equity/voting rights at December 22, 2014	Place of incorporation/ registration	Business sector
Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") .....	41%	Henan, China	Banking
Suiping Hengsheng County Bank Co., Ltd. ("Suiping Hengsheng") .....	45%	Henan, China	Banking

The following tables illustrate the aggregate information of the Predecessor Entities' associates that are not individually material:

	At December 22, 2014
Aggregate carrying amount of individually immaterial associates in the combined financial statements .....	54,902
Aggregate amounts of the Predecessor Entities' share of results of those associates .....	2,518
- Profit from continuing operations .....	2,518
- Other comprehensive income .....	—
- Total comprehensive income .....	2,518

## 25 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
<b>Cost</b>							
As at January 1, 2014 .....	3,082,450	74,824	532,351	104,862	214,423	288,114	4,297,024
Additions .....	33,983	—	12,768	3,406	5,804	157,491	213,452
Transfers in/(out) of construction in progress .	23,718	—	556	—	1,137	(25,411)	—
Disposals .....	(9,643)	—	(6,101)	(10,986)	(7,430)	—	(34,160)
As at December 22, 2014 ....	<u>3,130,508</u>	<u>74,824</u>	<u>539,574</u>	<u>97,282</u>	<u>213,934</u>	<u>420,194</u>	<u>4,476,316</u>
<b>Accumulated depreciation</b>							
As at January 1, 2014 .....	(621,167)	(33,138)	(315,425)	(75,076)	(84,285)	—	(1,129,091)
Additions .....	(212,236)	(6,985)	(61,572)	(10,359)	(17,529)	—	(308,681)
Disposals .....	6,063	—	4,084	6,897	5,531	—	22,575
As at December 22, 2014 ....	<u>(827,340)</u>	<u>(40,123)</u>	<u>(372,913)</u>	<u>(78,538)</u>	<u>(96,283)</u>	<u>—</u>	<u>(1,415,197)</u>
<b>Impairment</b>							
As at January 1, 2014 .....	(30,805)	(26)	(2,784)	(1,043)	(4,816)	—	(39,474)
Disposals .....	1,034	—	338	—	1,899	—	3,271
As at December 22, 2014 ....	<u>(29,771)</u>	<u>(26)</u>	<u>(2,446)</u>	<u>(1,043)</u>	<u>(2,917)</u>	<u>—</u>	<u>(36,203)</u>
<b>Net book value</b>							
As at December 22, 2014 ....	<u>2,273,397</u>	<u>34,675</u>	<u>164,215</u>	<u>17,701</u>	<u>114,734</u>	<u>420,194</u>	<u>3,024,916</u>

The carrying amount of the premises with incomplete title deeds as December 22, 2014 was RMB 1,158.20 million. 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.

The net book value of premises at the end of the Relevant Period is analyzed by the remaining terms of the leases as follows:

	At December 22, 2014
Held in mainland China	
- Long-term leases (over 50 years) .....	477,994
- Medium-term leases (10 - 50 years) .....	1,752,622
- Short-term leases (less than 10 years) .....	<u>42,781</u>
Total .....	<u><u>2,273,397</u></u>

The net book value of investment properties at the end of the Predecessor Period is analyzed by the remaining terms of the leases as follows:

	At December 22, 2014
Held in mainland China	
- Medium-term leases (10 - 50 years) .....	<u>34,675</u>
Total .....	<u><u>34,675</u></u>

## 26 Deferred tax assets

### (a) Analyzed by nature

	At December 22, 2014	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):		
Allowance for impairment losses.....	4,701,728	1,175,432
Staff cost payable .....	171,280	42,820
Supplemental retirement benefits.....	200,780	50,195
Fair value changes of financial assets .....	(11,680)	(2,920)
Others .....	<u>(33,420)</u>	<u>(8,355)</u>
Net balances .....	<u><u>5,028,688</u></u>	<u><u>1,257,172</u></u>

(b) *Movements of deferred tax*

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Others	Net balance of deferred tax assets
January 1, 2014 .....	913,590	31,295	48,724	47,796	(26,684)	1,014,721
Recognized in profit or loss.	261,842	11,525	1,471	(28,095)	18,329	265,072
Recognized in other comprehensive income .....	—	—	—	(22,621)	—	(22,621)
December 22, 2014 .....	<u>1,175,432</u>	<u>42,820</u>	<u>50,195</u>	<u>(2,920)</u>	<u>(8,355)</u>	<u>1,257,172</u>

*Notes:*

- (i) The Predecessor Entities made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the Predecessor Period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the Predecessor Period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

**27 Other assets**

	Note	At December 22, 2014
Interests receivable .....	27(a)	606,914
Repossessed assets .....		546,835
Intangible assets .....	27(b)	228,792
Leasehold improvements .....		223,839
Other receivables .....		<u>1,266,883</u>
Total .....		<u>2,873,263</u>



(a) *Interests receivable*

	At December 22, 2014
Interests receivable arising from:	
- Investments .....	390,211
- Loans and advances to customers .....	167,399
- Others .....	49,304
Total .....	<u>606,914</u>

(b) *Intangible assets*

	Land use rights	Computer software	Total
Cost			
As at January 1, 2014 .....	237,034	136,963	373,997
Additions .....	—	6,633	6,633
As at December 22, 2014 .....	<u>237,034</u>	<u>143,596</u>	<u>380,630</u>
Accumulated amortisation			
As at January 1, 2014 .....	(25,965)	(83,673)	(109,638)
Additions .....	(9,072)	(22,613)	(31,685)
As at December 22, 2014 .....	<u>(35,037)</u>	<u>(106,286)</u>	<u>(141,323)</u>
Impairment			
As at January 1, 2014 .....	(9,097)	(1,418)	(10,515)
As at December 22, 2014 .....	<u>(9,097)</u>	<u>(1,418)</u>	<u>(10,515)</u>
Net book value			
As at January 1, 2014 .....	<u>201,972</u>	<u>51,872</u>	<u>253,844</u>
As at December 22, 2014 .....	<u>192,900</u>	<u>35,892</u>	<u>228,792</u>

## 28 Pledged assets

(a) *Assets pledged as collateral*

	Note	At December 22, 2014
For repurchase agreements		
- Available-for-sale financial assets.....	21	800,000
- Held-to-maturity investments .....	22	<u>1,660,000</u>
Total .....		<u>2,460,000</u>

Financial assets pledged by the Predecessor Entities as collaterals for liabilities which are for repurchase agreements.

(b) *Received pledged assets*

The Predecessor Entities conduct resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at December 22, 2014, the carrying amounts of the received pledged assets is RMB 10,186.22 million.

## 29 Deposits from banks and other financial institutions

*Analyzed by type and location of counterparty*

	At December 22, 2014
Deposits in mainland China	
- Banks.....	3,003,100
- Other financial institutions .....	<u>2,718,477</u>
Total .....	<u>5,721,577</u>

## 30 Financial assets sold under repurchase agreements

(a) *Analyzed by type and location of counterparty*

	At December 22, 2014
In mainland China	
- Banks.....	1,750,000
- Other financial institutions .....	<u>708,000</u>
Total .....	<u>2,458,000</u>

(b) *Analyzed by collateral*

	<u>At December 22, 2014</u>
Debt securities .....	<u>2,458,000</u>
<b>31 Deposits from customers</b>	
	<u>At December 22, 2014</u>
Demand deposits	
- Corporate customers.....	52,340,578
- Individual customers .....	<u>21,190,329</u>
Sub-total .....	<u>73,530,907</u>
Time deposits	
- Corporate customers.....	13,603,963
- Individual customers .....	<u>59,678,389</u>
Sub-total .....	<u>73,282,352</u>
Pledged deposits	
- Acceptances .....	19,302,628
- Letters of credit and guarantee.....	1,749,496
- Others .....	<u>138,803</u>
Sub-total .....	<u>21,190,927</u>
Inward and outward remittances.....	<u>700,115</u>
Total .....	<u>168,704,301</u>

## 32 Other liabilities

	Note	At December 22, 2014
Interests payable .....	32(a)	2,178,696
Accrued staff cost .....	32(b)	564,281
Other tax payable .....		195,486
Payment and collection clearance accounts .....		287,285
Capital contribution received in advance from shareholders .....		166,368
Dividend payable .....		118,892
Litigations and disputes provision .....		29,092
Other payable .....		451,124
Total .....		<u>3,991,224</u>

(a) *Interests payable*

	At December 22, 2014
Interests payable arising from:	
Deposits from customers .....	2,168,286
Deposits from banks and other financial institutions .....	7,957
Repurchase agreements .....	1,006
Others .....	1,447
Total .....	<u>2,178,696</u>

(b) *Accrued staff cost*

	Note	At December 22, 2014
Salary, bonuses and allowances payable .....		325,003
Social insurance payable .....		30,550
Housing allowances payable .....		4,020
Labor union fee, staff and workers' education fee .....		10,737
Supplementary retirement benefits payable .....	(1)	193,971
Total .....		<u>564,281</u>

(1) *Supplementary retirement benefits ("SRB")*

The supplementary retirement benefits of the Predecessor Entities include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Predecessor Entities' eligible employees.

(i) The balances of SRB of the Predecessor Entities are as follows:

	<u>At December 22, 2014</u>
Present value of early retirement plan.....	187,970
Present value of supplementary retirement plan.....	<u>6,001</u>
	<u>193,971</u>

(ii) Movements of SRB of the Predecessor Entities are as follows:

	<u>Period from January 1, 2014 to December 22, 2014</u>
As at January 1.....	194,895
Benefits paid during the period.....	(15,856)
Defined benefit cost recognized in profit and loss.....	14,042
Defined benefit cost recognized in other comprehensive income .....	<u>890</u>
As at December 22 .....	<u>193,971</u>

(iii) Principal actuarial assumptions of the Predecessor Entities are as follows:

Early retirement plan

	<u>At December 22, 2014</u>
Discount rate .....	3.50%
Normal retirement age	
- Male .....	60
- Female .....	55
Annual increase rate of internal salary .....	4.50%

## Supplementary retirement plan

	At December 22, 2014
Discount rate .....	4%
Normal retirement age	
- Male .....	60
- Female .....	55

## (iv) Sensitivity analysis:

## Early retirement plan

	Period from January 1, 2014 to December 22, 2014	
	Increase	Decrease
Discount rate (1% movement) .....	(8,096)	8,831

## Supplementary retirement plan

	Period from January 1, 2014 to December 22, 2014	
	Increase	Decrease
Discount rate (1% movement) .....	(1,032)	1,100

Although the analysis does not take account of the full distribution of cash flows expected under the SRB, it does provide an approximation of the sensitivity of the assumptions shown.

## 33 Share capital

The Combined Financial Information has been prepared by the directors using the basis of preparation and presentation set out in Note 2(2). For the purpose of this report, share capital in the combined statements of financial position as at December 22, 2014 represented the aggregate amount of share capital of the Predecessor Entities.

## 34 Capital reserve

	Note	At December 22, 2014
Share premium.....		1,180,249
Fair value changes on available-for-sale financial assets.....	34(a)	(531)
Changes on remeasurement of defined benefit liabilities.....	34(b)	(890)
Others.....		<u>292,192</u>
Total.....		<u><u>1,471,020</u></u>

(a) *Investment revaluation reserve*

	Period from January 1, 2014 to December 22, 2014
As at January 1.....	(68,393)
Changes in fair value recognised in other comprehensive income.....	62,963
Transfer to profit or loss upon disposal.....	27,520
Less: deferred income tax.....	<u>(22,621)</u>
As at December 22.....	<u><u>(531)</u></u>

(b) *Deficit on remeasurement of net defined benefit liability*

	Period from January 1, 2014 to December 22, 2014
As at January 1.....	—
Changes in fair value recognised in other comprehensive income.....	<u>(890)</u>
As at December 22.....	<u><u>(890)</u></u>

## 35 Surplus reserve and general reserve

(a) *Surplus reserve*

The surplus reserve at the end of the Predecessor Period represented statutory surplus reserve fund.

The statutory surplus reserve fund as at 22 December, 2014 is RMB 1,499.05 million.

The Predecessor Entities are required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) *General reserve*

From July 1, 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the Ministry of Finance on March 20, 2012, the Predecessor Entities are required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the balance of its gross risk-bearing assets at each year end.

**36 Appropriation of profits**

(a) The Predecessor Entities made the profit distribution for the period from January 1, 2014 to December 22, 2014 as following:

- Appropriation of statutory surplus reserve amounted to RMB 265.76 million; and
- Appropriation of general reserve amounted to RMB 1,684.45 million.

(b) In accordance with the respective resolutions of some of Predecessor Entities' shareholders' general meetings, Sanmenxia Bank Co., Ltd., Xinxiang Bank Co., Ltd., Shangqiu Bank Co., Ltd., Luohe Bank Co., Ltd., Zhumadian Bank Co., Ltd. declared cash dividends in aggregation of amount of RMB 912.92 million to their shareholders.

(c) In accordance with the resolution of the Bank's shareholders' general meeting on April 11, 2015, the net profits in aggregation of amount of RMB 47.20 million attributed to the period from January 1 to June 30, 2014 were declared and paid to the former shareholders of Luohe Bank Co., Ltd., Xinyang Bank Co., Ltd., Zhoukou Bank Co., Ltd. and Zhumadian Bank Co., Ltd..

**37 Involvement with unconsolidated structured entities**

(a) *Structured entities sponsored by third party institutions in which the Predecessor Entities holds an interest*

The Predecessor Entities hold interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust schemes, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.



The following table sets out an analysis of the carrying amounts of interests held by the Predecessor Entities in unconsolidated structured entities, as well as an analysis of the line items in the combined statement of financial position in which relevant assets are recognized as at December 22, 2014:

	At December 22, 2014	
	Carrying amount	Maximum exposure
Available-for-sale financial assets .....	2,415,687	2,415,687
Debt securities classified as receivables.....	16,071,882	16,071,882
Total.....	<u>18,487,569</u>	<u>18,487,569</u>

As at December 22, 2014, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

(b) *Structured entities sponsored by the Predecessor Entities which the Predecessor Entities do not consolidate but holds an interest in:*

The types of unconsolidated structured entities sponsored by the Predecessor Entities 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 units to investors. Interest held by the Predecessor Entities includes investments in units issued by these structured entities and fees charged by providing management services. As at December 22, 2014, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 22, 2014, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Predecessor Entities are RMB 701.99 million.

(c) *Unconsolidated structure entities sponsored by the Predecessor Entities during the period which the Predecessor Entities do not consolidate but have an interest in as at December 22, 2014:*

For the period from January 1, 2014 to December 22, 2014, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Predecessor Entities after January 1, but matured before December 22 amounted to RMB 2,746.23 million.

### 38 Capital management

The Predecessor Entities' capital management were conducted by each bank comprising the Predecessor Entities. The capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management.

The Predecessor Entities calculated the capital adequacy ratio in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Predecessor Entities' operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

No combined capital adequacy ratio for the Business of the Predecessor Entities had been presented as at December 22, 2014.

### 39 Notes to the combined statement of cash flows

#### (a) *Net decrease in cash and cash equivalents*

	<u>Period from January 1, 2014 to December 22, 2014</u>
Cash and cash equivalents as at December 22 .....	34,580,079
Less: Cash and cash equivalents as at January 1 .....	<u>37,736,974</u>
Net decrease in cash and cash equivalents .....	<u>(3,156,895)</u>

#### (b) *Cash and cash equivalents*

	<u>At December 22, 2014</u>
Cash on hand .....	1,460,181
Deposits with the central bank .....	15,650,765
Deposits with banks and other financial institutions .....	7,303,927
Financial assets held under resale agreements .....	<u>10,165,206</u>
Total .....	<u>34,580,079</u>

40 **Related party relationships and transactions**(a) ***Relationship of related parties:***(i) *Major shareholders*

Major shareholders include shareholders of the Predecessor Entities with 5% or above shareholding, or with the right to appoint a director in the Predecessor Entities.

(ii) *Associates of the Predecessor Entities*

The detailed information of the Predecessor Entities' associates is set out in Note 24.

(iii) *Other related parties*

Other related parties can be individuals or enterprises, which include: members of the board of directors 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 and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Predecessor Entities as set out in Note 40(a) or their controlling shareholders.

(b) ***Related party transactions and balances:***(i) *Transactions between the Predecessor Entities and major shareholders:*

	<b>Period from January 1, 2014 to December 22, 2014</b>
Transactions during the period:	
Interest income .....	40,664
Interest expense .....	35,520
	<b>At December 22, 2014</b>
Balances at end of the period:	
Loans and advances to customers .....	442,742
Held-to-maturity investments .....	252,000
Interests receivable .....	8,750
Deposits from customers .....	3,033,978
Interests payable .....	19,561

(ii) *Transactions between the Predecessor Entities and subsidiaries:*

The subsidiaries of the Predecessor Entities are its related parties. The transactions between the Predecessor Entities and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

(iii) *Transactions between the Predecessor Entities and associates:*

	<u>Period from January 1, 2014 to December 22, 2014</u>
Transactions during the period:	
Interest income .....	606
Interest expense .....	88
	<u>At December 22, 2014</u>
Balances at end of the period:	
Deposits with banks and other financial institutions .....	155,892
Interests receivable .....	379
Deposits from banks and other financial institutions .....	7,588

(iv) *Transactions between the Predecessor Entities and other related parties:*

	<u>Period from January 1, 2014 to December 22, 2014</u>
Transactions during the period:	
Interest income .....	10,149
Interest expense .....	1,747
	<u>At December 22, 2014</u>
Balances at end of the period:	
Loans and advances to customers .....	291,822
Interests receivable .....	60
Deposits from customers .....	304,321
Interests payable .....	804

(v) *Transfer of assets*

During the Predecessor Period, pursuant to the relevant arrangements in the Reorganization, some of the city commercial banks of the Predecessor Entities Group transferred certain assets (mainly including repossessed assets, intangible assets and investments) amounting to RMB 5,284.28 million to Henan Investment Group Co., Ltd. with a consideration of RMB 4,791.28 million. Henan Investment Group Co., Ltd. was a shareholder of one of the Predecessor Entities.

(c) *Key management personnel*

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Predecessor Entities, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) *Transactions between the Predecessor Entities and key management personnel*

	<u>Period from January 1, 2014 to December 22, 2014</u>
Transactions during the period:	
Interest income .....	363
Interest expense .....	349
	<u>At December 22, 2014</u>
Balances at end of the period:	
Loans and advances to customers .....	9,222
Interests receivable .....	2
Deposits from customers .....	21,368
Interests payable .....	195

(ii) *Key management personnel compensation*

The aggregate compensation of key management personnel is listed as follows:

	<u>Period from January 1, 2014 to December 22, 2014</u>
Salaries and other emoluments .....	33,286
Discretionary bonuses .....	31,675
Contribution by the employer to social insurance and welfare plans, housing allowance, etc .....	<u>5,073</u>
Total .....	<u><u>70,034</u></u>

(d) *Loans and advances to directors, supervisors and officers*

Loans and advances to directors, supervisors and officers of the Predecessor Entities disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	<u>At December 22, 2014</u>
Aggregate amount of relevant loans outstanding at the period end .....	<u>9,222</u>
Maximum aggregate amount of relevant loans outstanding during the Predecessor Period .....	<u>9,222</u>

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 22, 2014.

**41 Segment reporting**

As described in the Note 1, the People's Government of Henan Province established the Leading Group Office on December 10, 2013 for supervising and coordinating all material matters during the process of the Bank's establishment. The Leading Group Office had been overall management body of the Predecessor Entities during the Predecessor Period, as the ultimate decision-making authority and key management responsibilities of the Predecessor Entities.

Operating segment was identified on the basis of internal reports that were regularly reviewed by the Leading Group Office for the purposes of resource allocation and performance assessment. The Leading Group Office reviewed financial information of each bank without segregating different activities.

All the Predecessor Entities carried out banking business (including provision of corporate and personal banking services as well as financial markets business operations) in Henan Province, the PRC. Since the Predecessor Entities provided the same nature of services to the same type of customers at the same location and subject to the same regulatory requirements, the directors of the Bank considered the operation of the Predecessor Entities as one reportable segment.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Predecessor Entities' accounting policies.

	<u>Period from January 1, 2014 to December 22, 2014</u>
Interest income .....	12,293,252
Interest expense .....	<u>(3,557,549)</u>
Net interest income .....	<u>8,735,703</u>
Fee and commission income.....	144,579
Fee and commission expense.....	<u>(52,325)</u>
Net fee and commission income.....	<u>92,254</u>
Net trading gains .....	133,925
Net gains arising from investment securities .....	2,750
Other operating income .....	<u>118,356</u>
Operating income.....	9,082,988
Operating expenses .....	<u>(3,500,663)</u>
Impairment losses on assets .....	<u>(1,969,317)</u>
Operating Profit .....	3,613,008
Share of profits of associates .....	<u>2,518</u>
Profit before tax .....	<u>3,615,526</u>
Segment assets.....	200,989,833
Deferred tax assets.....	<u>1,257,172</u>
Total assets .....	<u>202,247,005</u>
Segment liabilities .....	<u>182,721,420</u>
Total liabilities.....	<u>182,721,420</u>
Other segment information	
- Depreciation and amortization.....	<u>414,288</u>
- Capital expenditure .....	<u>392,638</u>

#### 42 Risk management

The Predecessor Entities have exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Predecessor Entities' exposure to each of the above risks and their sources, and the Predecessor Entities' objectives, policies and procedures for measuring and managing these risks.

The Predecessor Entities' risk management policies were established to identify and analyze the risks to which the Predecessor Entities are exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Predecessor Entities' activities. The internal audit departments of the Predecessor Entities undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) *Credit risk*

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Predecessor Entities. It arises primarily from credit and bond investment portfolios and guarantees granted.

*Credit business*

The Leading Group Office is responsible for setting the Predecessor Entities' risk management strategy and the overall risk tolerance level. The Leading Group Office also monitors the Predecessor Entities' risk management process and regularly assesses the Predecessor Entities' risk position and risk management strategies. The Leading Group Office gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the credit approval departments, credit management departments and risk management departments. The risk management departments are responsible for implementing the Predecessor Entities' overall risk management system. Besides risk monitoring and control, the risk management departments are also responsible for formulating risk management policies. To ensure the independence of credit approval, the credit approval departments are independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Predecessor Entities' risk management policies and procedures.

The Predecessor Entities continuously improve the internal control mechanism and strengthens the management of the credit business. The Predecessor Entities have established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Predecessor Entities have established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the Leading Group Office. The Predecessor Entities' credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Predecessor Entities assess customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Predecessor Entities continually monitor outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments



for further approval. The Predecessor Entities monitor borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Predecessor Entities start the recovery process according to standardized loan recovery procedures.

The Predecessor Entities adopt 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 honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collaterals 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.

*Financial markets business*

The Predecessor Entities set credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Predecessor Period.

(ii) Financial assets analyzed by credit quality are summarized as follows:

	At December 22, 2014			
	Loans and advances	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments  (*)
<i>Impaired</i>				
Individually assessed gross amount.....	1,652,696	21,396	—	400,000
Provision for impairment losses.....	(974,734)	(19,704)	—	(110,960)
Sub-total.....	677,962	1,692	—	289,040
Collectively assessed gross amount.....	492,814	—	—	—
Provision for impairment losses.....	(275,329)	—	—	—
Sub-total.....	217,485	—	—	—
<i>Overdue but not impaired</i>				
Less than three months (inclusive).....	6,271,611	—	—	—
Between three months- and six months (inclusive).....	447,221	—	—	—
Between six months and one year (inclusive).....	289,976	—	—	95,000
More than one year .....	352,671	—	—	—
Gross amount .....	7,361,479	—	—	95,000
Provision for impairment losses.....	(996,757)	—	—	(1,425)
Sub-total.....	6,364,722	—	—	93,575
<i>Neither overdue nor impaired</i>				
Gross amount .....	100,414,688	7,362,037	10,165,206	36,783,716
Provision for impairment losses.....	(2,667,613)	—	—	(270,638)
Sub-total.....	97,747,075	7,362,037	10,165,206	36,513,078
Total .....	105,007,244	7,363,729	10,165,206	36,895,693

\* Investments comprise financial assets at fair value through profit or loss, available-for-sale debt investments, held-to-maturity investments and debt securities classified as receivables.

The fair value of collaterals held against loans and advances overdue but not impaired at December 22, 2014 amounted to RMB 7,412.79 million. The Fair value of collaterals held against loans and advances impaired at December 22, 2014 amounted to RMB 345.45 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Predecessor Entities based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

The Predecessor Entities Group has formulated a set of loan restructuring policies to reschedule the contractual terms with customers, to maximise the collectability of loans and to manage customer relationships.

The carrying amount of rescheduled loans and advances to customers is as follows:

	<u>At December 22, 2014</u>
Rescheduled loans and advances to customers.....	31,330
Impaired loans and advances to customers included in above.....	31,330

(iv) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institution. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	<u>At December 22, 2014</u>
Neither overdue nor impaired	
Ratings	
- A to AAA .....	14,526,479
- B to BBB .....	<u>3,000,764</u>
Total .....	<u><u>17,527,243</u></u>

## (v) Debt securities

The Predecessor Entities adopt a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of the Predecessor Period are as follows:

	<u>At December 22, 2014</u>
Neither overdue nor impaired	
Ratings	
- AAA .....	1,119,117
- AA- to AA+ .....	2,357,557
- A- to A+ .....	284,261
- unrated.....	<u>12,891,557</u>
Total .....	<u><u>16,652,492</u></u>

(b) *Market risk*

Market risk is the risk of loss, in respect of the Predecessor Entities' activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Leading Group Office is ultimately responsible for monitoring the Predecessor Entities' market risk to ensure that the Predecessor Entities have effectively identified, measured and monitored all types of market risk. The risk management departments monitor the market risk management process within the scope authorized by the Leading Group Office, which include review and approval of market risk management strategies, policies and procedures. The Predecessor Entities are primarily exposed to market risk in its financial markets business. The financial market departments are responsible for carrying out capital investments and transactions. The finance management departments are responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The finance management department are responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Predecessor Entities' market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Predecessor Entities' overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Predecessor Entities' current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Predecessor Entities' on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Predecessor Entities' current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Predecessor Entities' interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Predecessor Entities' economic value.

#### *Interest rate risk*

The Predecessor Entities are primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

#### Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Predecessor Entities' income or its inherent economic value to vary with the movement in interest rates.

The finance management departments are responsible for measuring, monitoring and managing interest rate risk. The Predecessor Entities regularly perform assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

#### Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Predecessor Entities employ other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

- (i) The following tables indicate the assets and liabilities as at the end of the Predecessor Period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At December 22, 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
<b>Assets</b>						
Cash and deposits with the central bank .....	35,582,404	1,460,181	34,122,223	—	—	—
Deposits with banks and other financial institutions.....	7,362,037	—	7,303,927	58,110	—	—
Placements with banks and other financial institutions.....	1,692	1,692	—	—	—	—
Financial assets held under resale agreements .....	10,165,206	—	10,165,206	—	—	—
Loans and advances to customers (Note (i)) .....	105,007,244	—	36,968,657	63,291,462	4,187,383	559,742
Investments (Note (ii)) .....	36,918,169	22,476	4,838,347	10,857,527	15,651,139	5,548,680
Others .....	7,210,253	7,210,253	—	—	—	—
<b>Total assets</b> .....	<b>202,247,005</b>	<b>8,694,602</b>	<b>93,398,360</b>	<b>74,207,099</b>	<b>19,838,522</b>	<b>6,108,422</b>
<b>Liabilities</b>						
Borrowing from the central bank..	1,436,815	—	1,029,401	407,414	—	—
Deposits from banks and other financial institutions.....	5,721,577	—	2,851,577	2,470,000	400,000	—
Financial assets sold under repurchase agreements.....	2,458,000	—	2,458,000	—	—	—
Deposits from customers .....	168,704,301	7,267,926	105,652,162	38,215,159	17,361,112	207,942
Others .....	4,400,727	4,400,727	—	—	—	—
<b>Total liabilities</b> .....	<b>182,721,420</b>	<b>11,668,653</b>	<b>111,991,140</b>	<b>41,092,573</b>	<b>17,761,112</b>	<b>207,942</b>
<b>Asset-liability gap</b> .....	<b>19,525,585</b>	<b>(2,974,051)</b>	<b>(18,592,780)</b>	<b>33,114,526</b>	<b>2,077,410</b>	<b>5,900,480</b>

## Notes:

- (i) As at December 22, 2014, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB 7,245.24 million.
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

## (ii) Interest rate sensitivity analysis

The Predecessor Entities use sensitivity analysis to measure the impact of changes in interest rate on the Predecessor Entities' net profit or loss and equity. As at December 22, 2014, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Predecessor Entities' net profit to decrease RMB 50.53 million, and the Predecessor Entities' equity to decrease RMB 28.88 million; a decrease in estimated interest rate of 100 basis points will cause the Predecessor Entities' net profit to increase RMB 50.53 million, and the Predecessor Entities' equity to increase RMB 28.88 million.

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

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

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

*Foreign currency risk*

The Predecessor Entities Group's businesses are conducted in RMB and the Predecessor Entities Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors of the Bank considered the Predecessor Entities Group's exposure to foreign currency risk is not significant during the Predecessor Period.

(c) *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 sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Predecessor Entities monitor the future cash flows and maintains an appropriate level of highly liquid assets.

The Predecessor Entities manage the liquidity risk through the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Predecessor Entities' funds.

The finance management departments take the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the Predecessor Entities. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The financial market departments are responsible for performing the operation following the instructions of the finance management departments. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Predecessor Entities' assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Predecessor Entities principally use liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.



The following tables provide an analysis of assets and liabilities of the Predecessor Entities into relevant maturity groupings based on the remaining periods to repayment at the end of the Predecessor Period:

		At December 22, 2014							
		Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total			
	Note (i)	Repayable on demand	Within one month						
<b>Assets</b>									
Cash and deposits with the central bank .....		18,471,458	17,110,946	—	—	—	35,582,404		
Deposit with banks and other financial institutions.....		—	4,226,947	2,831,350	245,630	58,110	7,362,037		
Placement with banks and other financial institutions.....		—	1,692	—	—	—	1,692		
Financial assets held under resale agreements .....		—	—	9,347,006	818,200	—	10,165,206		
Loans and advances to customers.....		3,720,984	3,539,185	8,085,359	12,937,779	65,699,007	6,912,209	4,112,721	105,007,244
Investments .....		405,091	—	2,722,590	1,955,093	10,635,576	15,651,139	5,548,680	36,918,169
Others .....		5,346,166	—	449,204	189,079	177	1,225,627	—	7,210,253
<b>Total assets.....</b>		<b>27,943,699</b>	<b>24,878,770</b>	<b>23,435,509</b>	<b>16,145,781</b>	<b>76,392,870</b>	<b>23,788,975</b>	<b>9,661,401</b>	<b>202,247,005</b>

At December 22, 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	Total
<b>Liabilities</b>								
Borrowing from the central bank.....	—	500,000	329,813	199,588	407,414	—	—	1,436,815
Deposits from banks and other financial institutions.....	—	2,711,577	140,000	—	2,470,000	400,000	—	5,721,577
Financial assets sold under repurchase agreements.....	—	—	1,209,000	1,249,000	—	—	—	2,458,000
Deposit from customers.....	—	84,131,421	14,115,587	14,673,080	38,215,159	17,361,112	207,942	168,704,301
Others .....	39,333	400,460	—	1,130,913	1,951,433	791,284	87,304	4,400,727
<b>Total liabilities .....</b>	<b>39,333</b>	<b>87,743,458</b>	<b>15,794,400</b>	<b>17,252,581</b>	<b>43,044,006</b>	<b>18,552,396</b>	<b>295,246</b>	<b>182,721,420</b>
<b>Long/(short) position .....</b>	<b>27,904,366</b>	<b>(62,864,688)</b>	<b>7,641,109</b>	<b>(1,106,800)</b>	<b>33,348,864</b>	<b>5,236,579</b>	<b>9,366,155</b>	<b>19,525,585</b>

Note (i)

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments at the end of each of the Predecessor Period:

At December 22, 2014							
	Contractual undiscounted cash flow	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
<b>Non-derivative financial liabilities</b>							
Borrowing from the central bank.....	1,436,815	500,108	330,963	200,561	413,850	—	—
Deposits from banks and other financial institutions.....	5,721,577	2,713,753	140,293	—	2,546,833	451,745	—
Financial assets sold under repurchase agreements.....	2,458,000	—	1,215,251	1,256,538	—	—	—
Deposits from customers.....	168,704,301	84,281,291	14,149,937	14,791,265	39,057,360	18,070,264	209,226
Other financial liabilities.....	2,222,031	384,019	—	394,128	975,730	346,832	121,322
Total non-derivative financial liabilities.....	180,542,724	87,879,171	15,836,444	16,642,492	42,993,773	18,868,841	330,548
Loan commitments .....	—	120,646	656,001	—	—	—	—

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

**(d) Operational risk**

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Predecessor Entities establish a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

**43 Fair value****(a) Methods and assumptions for measurement of fair value**

The Predecessor Entities adopt the following methods and assumptions when evaluating fair values:

**(i) Debt securities and equity investments**

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the Predecessor Period.

**(ii) 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 the Predecessor Period.

**(iii) Other non-derivative financial liabilities**

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 the Predecessor Period.

**(b) Fair value measurement****(i) Financial assets**

The Predecessor Entities' financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and financial assets at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 22. The carrying amounts of debt securities classified as receivables are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently.

**(ii) Financial liabilities**

The Predecessor Entities' financial liabilities mainly include payables to banks and other financial institutions, and deposits from customers. The carrying amounts of these financial liabilities approximate their fair value.

**(c) Fair value hierarchy**

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is categorized is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
Level 2:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
Level 3:	Fair value measured using significant unobservable inputs

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques

include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

	At December 22, 2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- debt instruments.....	—	2,889,079	—	2,889,079
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	1,800,093	—	1,800,093
- investment management products .....	—	556,850	—	556,850
- wealth management products.....	—	1,858,837	—	1,858,837
- others.....	—	1,755,632	—	1,755,632
Total .....	—	8,860,491	—	8,860,491

During the Predecessor Period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

#### 44 Entrusted lending business

The Predecessor Entities provide entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Predecessor Entities do not take any credit risk in relation to these transactions. The Predecessor Entities act as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Predecessor Entities and are not recognized in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	At December 22, 2014
Entrusted loans .....	<u>8,741,034</u>
Entrusted funds.....	<u>8,741,034</u>

#### 45 Commitments and contingent liabilities

##### (a) Credit commitments

The Predecessor Entities' credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Predecessor Entities provide financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Predecessor Entities to pay bills of exchange drawn on customers. The Predecessor Entities expect most acceptances to be settled simultaneously with the reimbursement from the customers.

	<u>At December 22, 2014</u>
Loan commitments	
- Original contractual maturity within one year .....	776,647
Acceptances .....	30,612,553
Letters of guarantees.....	<u>241,659</u>
Total .....	<u><u>31,630,859</u></u>

The Predecessor Entities may be exposed to credit risk in all the above credit businesses. The 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.

(b) *Credit risk-weighted amount*

	<u>At December 22, 2014</u>
Credit risk-weighted amount .....	<u><u>14,372,858</u></u>

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC.

(c) *Operating lease commitments*

As at the end of the Predecessor Period, the Predecessor Entities' future minimum lease payments under non-cancellable operating leases for properties are as follows:

	<u>At December 22, 2014</u>
Within one year (inclusive).....	71,276
After one year but within five years (inclusive) .....	201,901
After five years.....	<u>68,663</u>
Total .....	<u><u>341,840</u></u>

(d) *Capital commitments*

As at the end of the Predecessor Period, the Predecessor Entities' authorized capital commitments are as follows:

	<u>At December 22, 2014</u>
Contracted but not paid for .....	217,008
Approved but not contracted for .....	<u>46,448</u>
Total .....	<u><u>263,456</u></u>

(e) *Outstanding litigations and disputes*

As at December 22, 2014, the Predecessor Entities was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB 308.68 million. The Predecessor Entities recognised the related litigation provision, which they believed to be reasonable and sufficient.

46 **Subsequent event**

The Bank was established on December 23, 2014 and the Business including all the assets and liabilities of the Predecessor Entities was transferred to the Bank on the same date.



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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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The following is the text of a report set out on page IB - 1 to IB - 144, received from the Bank's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE  
DIRECTORS OF ZHONGYUAN BANK CO., LTD. AND CITIC CLSA CAPITAL MARKETS  
LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED, CCB INTERNATIONAL  
CAPITAL LIMITED AND CMB INTERNATIONAL CAPITAL LIMITED**

**Introduction**

We report on the historical financial information of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages IB-3 to IB-144, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Bank as at December 31, 2014, 2015 and 2016 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for the period from December 23, 2014 to December 31, 2014 and each of the years ended December 31, 2015 and 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IB-3 to IB-144 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Bank dated June 30, 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Bank are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(2) to the Historical Financial Information, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial

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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(2) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Bank's and the Group's financial position as at December 31, 2014, 2015 and 2016 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2(2) to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IB-3 have been made.

*Dividends*

We refer to Note 39 to the Historical Financial Information which contains information about the dividends paid by the Bank in respect of the Relevant Periods.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

June 30, 2017

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	Period from	Years ended December 31,	
		December 23, 2014 to December 31, 2014	2015	2016
Interest income .....		524,203	15,493,343	17,005,081
Interest expense .....		(190,991)	(4,945,237)	(5,801,754)
<b>Net interest income</b> .....	4	333,212	10,548,106	11,203,327
Fee and commission income.....		6,600	182,740	510,345
Fee and commission expense.....		(2,157)	(47,859)	(61,285)
<b>Net fee and commission income</b> .....	5	4,443	134,881	449,060
Net trading gains/(losses).....	6	8,833	142,378	(71,717)
Net gains/(losses) arising from investment securities .....	7	37,652	(649)	9,088
Other operating income.....	8	52,850	225,574	213,980
<b>Operating income</b> .....		436,990	11,050,290	11,803,738
Operating expenses .....	9	(531,101)	(5,120,347)	(5,136,375)
Impairment reversals/(losses) on assets .....	12	52,107	(1,887,122)	(2,246,755)
<b>Operating (loss)/profit</b> .....		(42,004)	4,042,821	4,420,608
Share of profits of associates .....		167	—	—
<b>(Loss)/profit before tax</b> .....		(41,837)	4,042,821	4,420,608
Income tax .....	13	9,454	(1,030,390)	(1,060,524)
<b>Net (loss)/profit for the period/year</b> .....		(32,383)	3,012,431	3,360,084

	Note	Period from	Years ended December 31,	
		December 23, 2014 to December 31, 2014	2015	2016
<b>Net (loss)/profit for the period/year.....</b>		(32,383)	3,012,431	3,360,084
<b>Other comprehensive income</b>				
Items that may be reclassified subsequently to profit or loss:				
- Available-for-sale financial assets: net movement in the investment revaluation reserve .....	38(a)	(4,016)	10,598	(649,314)
Items that will not be reclassified subsequently to profit or loss				
- Remeasurement of net defined benefit liability .....	38(b)	—	(811)	545
<b>Other comprehensive income, net of tax ...</b>		(4,016)	9,787	(648,769)
<b>Total comprehensive income .....</b>		(36,399)	3,022,218	2,711,315
<b>Net (loss)/profit attributable to:</b>				
Equity shareholders of the Bank .....		(30,884)	2,991,400	3,359,071
Non-controlling interests .....		(1,499)	21,031	1,013
		(32,383)	3,012,431	3,360,084
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of the Bank .....		(34,900)	3,001,187	2,710,302
Non-controlling interests .....		(1,499)	21,031	1,013
		(36,399)	3,022,218	2,711,315
Basic and diluted earnings per share (in RMB).....	14		0.19	0.20

**APPENDIX IB      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	At December 31,		
		2014	2015	2016
<b>Assets</b>				
Cash and deposits with the central bank.....	15	40,787,535	43,270,704	49,370,893
Deposits with banks and other financial institutions.....	16	5,159,629	5,044,386	12,830,492
Placements with banks and other financial institutions.....	17	1,692	821	8,700,000
Financial assets at fair value through profit or loss .....	18	2,895,056	17,144,182	4,207,070
Financial assets held under resale agreements .....	19	8,546,702	24,559,351	6,573,627
Loans and advances to customers.....	20	106,449,790	133,876,081	158,547,291
Available-for-sale financial assets .....	21	5,609,902	24,963,363	102,258,809
Held-to-maturity investments .....	22	11,315,183	12,735,476	17,851,813
Debt securities classified as receivables .....	23	16,792,457	33,881,710	58,678,326
Interests in associates .....	24	55,370	—	—
Property and equipment .....	26	5,089,151	4,861,817	4,785,468
Deferred tax assets.....	27	713,545	1,028,121	1,529,574
Goodwill.....	28	468,397	468,397	468,397
Other assets .....	29	3,063,355	4,056,285	7,269,679
<b>Total assets .....</b>		<u>206,947,764</u>	<u>305,890,694</u>	<u>433,071,439</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	Note	At December 31,		
		2014	2015	2016
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Borrowing from the central bank.....		705,932	1,651,826	4,517,048
Deposits from banks and other financial institutions.....	31	5,735,455	29,385,773	44,954,774
Placements from banks and other financial institutions.....	32	—	—	10,400,000
Financial assets sold under repurchase agreements .....	33	2,126,200	24,937,605	27,580,567
Deposits from customers .....	34	164,595,832	205,370,354	245,352,754
Income tax payable .....		459,538	718,277	748,761
Debt securities issued .....	35	—	2,979,045	57,387,758
Other liabilities .....	36	5,313,663	7,429,790	6,631,138
<b>Total liabilities</b> .....		<u>178,936,620</u>	<u>272,472,670</u>	<u>397,572,800</u>
<b>Equity</b>				
Share capital .....	37	15,420,541	16,625,000	16,625,000
Capital reserve .....	38	9,779,306	10,919,640	10,274,466
Surplus reserve .....	38	244,627	542,346	877,063
General reserve .....	38	1,700,303	2,209,150	5,134,776
Retained earnings.....		464,086	2,648,920	1,807,859
Total equity attributable to equity shareholders of the Bank .....		27,608,863	32,945,056	34,719,164
Non-controlling interests.....		402,281	472,968	779,475
<b>Total equity</b> .....		<u>28,011,144</u>	<u>33,418,024</u>	<u>35,498,639</u>
<b>Total liabilities and equity</b> .....		<u>206,947,764</u>	<u>305,890,694</u>	<u>433,071,439</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank						Non-controlling interests	Total
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings		
Balance at December 23, 2014 .....		—	—	—	—	—	—	—
Changes in equity for the period:								
Shares issued for acquisition of Business .....	44	11,624,874	7,505,922	244,627	1,700,303	494,970	21,570,696	403,780
Capital contributed by equity shareholders .....	37	3,795,667	2,277,400	—	—	—	6,073,067	—
Subtotal .....		15,420,541	9,783,322	244,627	1,700,303	494,970	27,643,763	403,780
Net loss for the period .....		—	—	—	—	(30,884)	(30,884)	(1,499)
Other comprehensive income .....		—	(4,016)	—	—	—	(4,016)	—
Total comprehensive income for the period .....		—	(4,016)	—	—	(30,884)	(34,900)	(1,499)
Balance at December 31, 2014 .....		15,420,541	9,779,306	244,627	1,700,303	464,086	27,608,863	402,281

Attributable to equity shareholders of the Bank								
Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at January 1, 2015 .....	15,420,541	9,779,306	244,627	1,700,303	464,086	27,608,863	402,281	28,011,144
Changes in equity for the year:								
Net profit for the year .....	—	—	—	—	2,991,400	2,991,400	21,031	3,012,431
Other comprehensive income.....	—	9,787	—	—	—	9,787	—	9,787
Total comprehensive income for the year .....	—	9,787	—	—	2,991,400	3,001,187	21,031	3,022,218
Capital contributed by equity shareholders .....	37	1,204,459	1,120,147	—	—	2,324,606	—	2,324,606
Obtain the control of subsidiaries ..		—	—	—	—	—	76,126	76,126
Others.....		—	10,400	—	—	10,400	—	10,400
Appropriation to surplus reserve ....	39	—	—	297,719	—	(297,719)	—	—
Appropriation to general reserve ....	39	—	—	—	508,847	(508,847)	—	—
Appropriation to shareholders .....	39	—	—	—	—	—	(26,470)	(26,470)
Balance at December 31, 2015 .....	16,625,000	10,919,640	542,346	2,209,150	2,648,920	32,945,056	472,968	33,418,024



	Attributable to equity shareholders of the Bank						Non- controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at January 1, 2016.....	16,625,000	10,919,640	542,346	2,209,150	2,648,920	32,945,056	472,968	33,418,024
Changes in equity for the year: .....								
Net profit for the year.....	—	—	—	—	3,359,071	3,359,071	1,013	3,360,084
Other comprehensive income.....	—	(648,769)	—	—	—	(648,769)	—	(648,769)
Total comprehensive income.....	—	(648,769)	—	—	3,359,071	2,710,302	1,013	2,711,315
-----								
Purchase of non-controlling interests .....	—	3,595	—	—	—	3,595	(53,162)	(49,567)
Capital contribution by non-controlling interests.....	—	—	—	—	(25,413)	(25,413)	189,317	163,904
Capital contribution by non-controlling interests of newly established subsidiary .....	—	—	—	—	—	—	175,000	175,000
Appropriation to surplus reserve.....	39	—	334,717	—	(334,717)	—	—	—
Appropriation to general reserve .....	39	—	—	2,925,626	(2,925,626)	—	—	—
Appropriation to shareholders .....	39	—	—	—	(914,376)	(914,376)	(5,661)	(920,037)
Balance at December 31, 2016 .....	16,625,000	10,274,466	877,063	5,134,776	1,807,859	34,719,164	779,475	35,498,639

**APPENDIX IB      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	Period from December 23, 2014 to December 31,		Years ended December 31,	
		2014	2015	2016	
<b>Cash flows from operating activities</b>					
(Loss)/profit before tax .....		(41,837)	4,042,821	4,420,608	
Adjustments for :					
— Impairment (reversals)/losses on assets ...		(52,107)	1,887,122	2,246,755	
— Depreciation and amortization .....		14,480	637,813	671,204	
— Depreciation of investment properties .....		515	11,514	11,092	
— Unwinding of discount .....		(1,700)	(105,857)	(83,747)	
— Unrealized foreign exchange gains .....		—	—	(8,242)	
— Net losses/(gains) on disposal of property and equipment .....		3,261	(10,133)	(4,798)	
— Net trading (gains)/losses .....		(8,833)	(142,378)	79,959	
— Net (gains)/losses on disposal of investment securities .....		(37,652)	649	(9,088)	
— Share of profits of associates .....		(167)	—	—	
— Interest expense on debts securities issued .....		—	8,180	727,871	
		(124,040)	6,329,731	8,051,614	
<i>Changes in operating assets</i>					
Net increase in deposits with the central bank .....		(1,102,096)	(9,422,281)	(3,687,857)	
Net decrease/(increase) in deposits with banks and other financial institutions .....		58,110	(1,000,000)	950,000	
Net decrease/(increase) in placements with banks and other financial institutions .....		—	871	(999,179)	
Net increase in loans and advances to customers .....		(1,338,756)	(28,805,547)	(26,802,843)	
Net (increase)/decrease in financial assets held under resale agreements .....		—	(2,071,196)	2,071,196	
Net decrease/(increase) in financial assets at fair value through profit or loss .....		2,855	(14,106,747)	12,857,152	
Net decrease/(increase) in other operating assets .....		486,695	(1,135,660)	(2,329,378)	
		(1,893,192)	(56,540,560)	(17,940,909)	

	Note	Period from	Years ended December 31,	
		December 23, 2014 to December 31, 2014	2015	2016
<i>Changes in operating liabilities</i>				
Net (decrease)/increase in borrowing from central bank.....		(730,883)	945,894	2,865,222
Net increase in deposits from banks and other financial institutions .....		13,877	23,650,318	15,569,001
Net increase in placements from banks and other financial institutions .....		—	—	10,400,000
Net (decrease)/increase in financial assets sold under repurchase agreements.....		(331,800)	22,811,405	2,642,962
Net (decrease)/increase in deposits from customers .....		(4,108,469)	40,774,522	39,982,400
Income tax paid .....		(110,334)	(1,085,458)	(1,531,492)
Net increase/(decrease) in other operating liabilities .....		1,330,809	2,143,205	(946,031)
		<u>(3,936,800)</u>	<u>89,239,886</u>	<u>68,982,062</u>
<b>Net cash flows (used in)/generated from operating activities.....</b>		<u>(5,954,032)</u>	<u>39,029,057</u>	<u>59,092,767</u>
<b>Cash flows from investing activities</b>				
Proceeds from disposal and redemption of investments.....		2,359,110	152,109,391	269,161,057
Gains received from investment activities ....		37,652	—	9,088
Proceeds from disposal of property and equipment and other assets .....		490	237,468	81,148
Payments on acquisition of investments .....		(1,970,145)	(190,093,148)	(377,247,954)
Payments on acquisition of property and equipment, intangible assets and other assets.....		(199,182)	(722,539)	(1,349,604)
<b>Net cash flows generated from/(used in) investing activities.....</b>		<u>227,925</u>	<u>(38,468,828)</u>	<u>(109,346,265)</u>

	Note	Period from	Years ended December 31,	
		December 23, 2014 to December 31, 2014	2015	2016
<b>Cash flows from financing activities</b>				
Proceeds from capital contribution by equity shareholders .....		6,073,067	2,324,606	—
Proceeds from capital contribution by non-controlling shareholders .....		—	86,526	338,904
Proceeds from issued debt securities .....		—	2,970,866	57,158,495
Acquisition of non-controlling interests .....		—	—	(49,567)
Repayment of debts securities issued .....		—	—	(3,000,000)
Interest paid on debts securities issued .....		—	—	(477,653)
Dividends paid .....		(6,727)	(55,129)	(774,529)
<b>Net cash flows generated from financing activities .....</b>		<b>6,066,340</b>	<b>5,326,869</b>	<b>53,195,650</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents .....</b>		<b>—</b>	<b>—</b>	<b>(8,242)</b>
<b>Net increase in cash and cash equivalents</b>	42(a)	<b>340,233</b>	<b>5,887,098</b>	<b>2,933,910</b>
<b>Cash and cash equivalents as at December 23/January 1 .....</b>		<b>34,580,079</b>	<b>34,920,312</b>	<b>40,807,410</b>
<b>Cash and cash equivalents as at December 31 .....</b>	42(b)	<b>34,920,312</b>	<b>40,807,410</b>	<b>43,741,320</b>
Interest received .....		411,031	14,299,764	16,059,403
Interest paid (excluding interest expense on debts securities issued) .....		(126,764)	(4,766,862)	(5,101,517)

**APPENDIX IB      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**STATEMENTS OF FINANCIAL POSITION OF THE BANK**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

	Note	At December 31,		
		2014	2015	2016
<b>Assets</b>				
Cash and deposits with the central bank.....	15	40,258,718	42,761,219	48,752,811
Deposits with banks and other financial institutions.....	16	4,435,052	4,395,794	11,960,632
Placements with banks and other financial institutions.....	17	1,692	821	8,700,000
Financial assets at fair value through profit or loss .....	18	2,895,056	17,144,182	4,207,070
Financial assets held under resale agreements .....	19	8,546,702	24,559,351	6,573,627
Loans and advances to customers .....	20	103,789,950	130,042,106	153,990,819
Available-for-sale financial assets .....	21	5,579,902	24,913,363	102,258,809
Held-to-maturity investments .....	22	11,315,183	12,735,476	17,851,813
Debt securities classified as receivables .....	23	16,792,457	33,881,710	58,678,326
Interests in associates .....	24	55,370	—	—
Investments in subsidiaries.....	25	326,277	381,647	788,738
Property and equipment .....	26	5,044,342	4,781,737	4,704,633
Deferred tax assets.....	27	695,268	1,000,042	1,497,369
Goodwill.....	28	468,397	468,397	468,397
Other assets .....	29	3,030,083	4,000,142	7,122,378
<b>Total assets .....</b>		<b><u>203,234,449</u></b>	<b><u>301,065,987</u></b>	<b><u>427,555,422</u></b>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	Note	At December 31,		
		2014	2015	2016
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Borrowing from central bank .....		395,932	1,311,826	4,071,188
Deposits from banks and other financial institutions.....	31	5,804,374	29,452,488	46,016,896
Placements from banks and other financial institutions.....	32	—	—	10,400,000
Financial assets sold under repurchase agreements .....	33	2,126,200	24,937,605	27,580,567
Deposits from customers .....	34	161,777,293	201,594,095	240,138,490
Income tax payable .....		442,703	705,805	737,654
Debt securities issued .....	35	—	2,979,045	57,387,758
Other liabilities .....	36	5,102,403	7,177,602	6,531,320
<b>Total liabilities</b> .....		<u>175,648,905</u>	<u>268,158,466</u>	<u>392,863,873</u>
<b>Equity</b>				
Share capital .....	37	15,420,541	16,625,000	16,625,000
Capital reserve .....	38	9,783,678	10,924,012	10,275,243
Surplus reserve .....	38	244,627	542,346	877,063
General reserve .....	38	1,670,192	2,172,037	5,080,799
Retained earnings.....		466,506	2,644,126	1,833,444
<b>Total equity</b> .....		<u>27,585,544</u>	<u>32,907,521</u>	<u>34,691,549</u>
<b>Total liabilities and equity</b> .....		<u>203,234,449</u>	<u>301,065,987</u>	<u>427,555,422</u>

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION**

*(Expressed in thousands of Renminbi, unless otherwise stated)*

**1 Background information**

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of China Banking Regulatory Commission (the "CBRC"). Prior to its establishment, the banking business (the "Business") was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities. Details of acquisition of the Business are set out in Note 44.

The Bank obtained its financial institution license No. B0615H241010001 from the CBRC, and obtained its business license No. 410000100034311 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by the CBRC authorized by the State Council.

As at December 31, 2016, the Bank has one head office and 17 branches across Henan Province, 9 subsidiaries which are county banks and 1 subsidiary which is consumer finance company. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBRC.

**2 Significant accounting policies**

**(1) Statement of compliance**

The Historical Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB"). The Historical 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.

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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended December 31, 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended December 31, 2016 are set out below:

	<u>Effective for accounting period beginning on or after</u>
Amendments to IAS 7, <i>Disclosure Initiative</i> .....	1 January 2017
Amendments to IAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i> .....	1 January 2017
Amendments to IFRS 4, <i>Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts</i> .....	1 January 2018
Amendments to IAS 40, <i>Transfers of investment property</i> .....	1 January 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i> .....	1 January 2018
IFRS 9, <i>Financial instruments</i> .....	1 January 2018
IFRS 15, <i>Revenue from contracts with customers</i> .....	1 January 2018
Amendments to IFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i> .....	1 January 2018
IFRS 16, <i>Leases</i> .....	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's result of operations and financial position, except for the following:

*IFRS 9 Financial Instruments*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalized version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalized version of IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of IFRS 9 (2014) that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments



that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

The Group is analyzing its business models, loans and other financial instruments' contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Group's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the risk management organization, process and key functions, budgeting and performance review, as well as the IT systems. The Group is starting to carry out an assessment of the need for any system modification related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training. However, a more detailed analysis is required to determine the extent of the impact on the Group's operating results and financial position.

*IFRS 15 Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The Group assesses that adopting IFRS 15 would not have a material impact to the Group's financial information.

*IFRS 16 Leases*

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value, in the statement of financial position.

Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at December 31, 2016, the Group had non-cancellable operating lease commitments of RMB 675.72 million, see Note 49 (c). However, the Group is in the process of assessing to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The directors of the Bank do not expect the adoption of IFRS 16 as compared with the current accounting policy will result in significant impact on the Group's results but it is expected that certain portion of these commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

**(2) *Basis of preparation and presentation***

The Historical Financial Information comprises the Bank and its subsidiaries and has been prepared on a consolidated basis. Intra-group balances and transactions are eliminated in full in preparing the Historical Financial Information. All subsidiaries of the Bank have adopted December 31 as their financial year end date.

(3) *Basis of measurement*

The Historical Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand. It is prepared on the historical cost basis except of certain financial assets, which are measured at fair value, as stated in Note 2(10).

(4) *Use of estimates and judgements*

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have a significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 2(28).

(5) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(6)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(18)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

#### (6) *Associates and joint ventures*

An associate is an entity in which the Group or 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 Group or 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 under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(18)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Bank's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(7) *Goodwill*

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(18)).

On disposal of a cash generating unit during the Relevant Periods, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(8) *Translation of foreign currencies*

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on 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 at the dates of transactions.

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 items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of each of the Relevant Periods. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date 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 capital reserve.

(9) *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, financial assets held under resale agreements 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.

(10) *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 Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading).

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, a financial instrument 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.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- (a) those that the Group, upon initial recognition, designates 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 Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, debt securities classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. 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 the profit or loss.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at 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 Group at the end of each of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the 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 Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

*Individual assessment*

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognized in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a 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.

*Homogeneous groups of loans not considered individually significant*

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilizes a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgment based on management's historical experience.

*Individually assessed loans with no objective evidence of impairment on an individual basis*

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of each of the Relevant Periods but which will not be individually identified as such until sometime in the future.

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and the judgment on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was 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 Group determines that loans and receivables have no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loans and receivables are written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loans and receivables written off are 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 Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

- 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 the 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.

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 measured 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 Group has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of each of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

*(iv) Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

*(v) Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

*(11) 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.

Interest earned on reverse repurchase 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.

*(12) Investment in subsidiaries*

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(5).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(18)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

*(13) Investment property*

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	<u>Estimated useful life</u>	<u>Estimated rate of residual value</u>	<u>Depreciation rate</u>
Premises .....	20 years	3%	4.85%

*(14) Property and equipment and construction in progress*

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(18)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(18)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate property and equipment.

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:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises .....	20 years	3%	4.85%
Motor vehicles .....	5 years	3%	19.40%
Others .....	3-10 years	3%	9.70%-32.33%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

**(15) *Operating leases***

Payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(16) *Intangible assets***

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(18)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Land use rights	30 - 50 years
Computer software	5 years

(17) *Repossessed assets*

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(18) *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;
- construction in progress;
- intangible assets;
- investment property measured using a cost model;
- investments in subsidiaries and associates; and
- goodwill.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell 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 present value of expected future cash flows 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 expected future cash flows, the useful life and the discount rate 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.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

(19) *Employee benefits*

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes.

*Social pension schemes*

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

*Housing fund and other social insurances*

In addition to the retirement benefits above, the Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) *Supplementary retirement benefits*

*Early retirement plan*

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

*Supplementary retirement plan*

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits". Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(20) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.



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 enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(21) *Financial guarantees, provisions and contingent liabilities***

**(i) *Financial guarantees***

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“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 as stated in Note 2(21)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

**(ii) *Other provisions and contingent liabilities***

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(22) *Fiduciary activities*

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(23) *Income recognition*

Income is the gross inflow of economic benefit in the periods arising in the course of the Group’s ordinary activities when the inflows result in an increase in shareholder’s equity, other than an increase relating to contributions from shareholders. Income is recognized in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

(i) *Interest income*

Interest income for financial assets is 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 Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognized using the rate of interest used to discount future cash flows (“unwinding of discount”) for the purpose of measuring the related impairment loss.

(ii) *Fee and commission income*

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

(iii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) *Other income*

Other income is recognized on an accrual basis.

(24) *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.

(25) *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 Historical Financial Information.

(26) *Related parties*

(a) A person, or a close member of that person's family, is related to the group if that person:

- (i) has control or joint control over the group;
- (ii) has significant influence over the group; or
- (iii) is a member of the key management personnel of the group or the group's parent.

(b) An entity is related to the group if any of the following conditions applies:

- (i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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.

**(27) *Segment reporting***

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

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 products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**(28) *Significant accounting estimates and judgements***

The preparation of Historical 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) *Provision for impairment losses on loans and advances to customers and investments (available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables)*

The Group reviews portfolios of loans and advances to customers and 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 investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers and debt investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value below its cost. When deciding whether there is significant or prolonged decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(ii) *Fair value of financial instruments*

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

(iii) *The classification of the held-to-maturity investments*

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

(iv) *Income taxes*

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

(v) *Impairment of non-financial assets*

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

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

*(vi) Depreciation and amortization*

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

*(vii) Determination of control over investees*

Management applies its judgement to determine whether the control indicators set out in Note 2(5) indicate that the Group controls a non-principal guaranteed wealth management product and an asset management plan.

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

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 40.

**3 Taxes**

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Value-added tax (VAT).	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	3%-6%
Business tax.....	Based on taxable revenue before May 1, 2016. According to Caishui [2016] No. 36, jointly issued by the Ministry of Finance and the State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from May 1, 2016, those taxpayers are required to pay VAT in lieu of business tax.	3%-5%
City maintenance and construction tax .....	Based on business tax and VAT paid	5%-7%
Corporate income tax ..	Based on taxable profits	25%

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**4 Net interest income**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
<b>Interest income arising from</b>			
Deposits with the central bank .....	42,800	523,363	546,059
Deposits with banks and other financial institutions.....	18,921	210,539	101,020
Placements with banks and other financial institutions.....	—	—	43,514
Loans and advances to customers			
- Corporate loans and advances .....	140,055	7,368,454	7,329,194
- Personal loans and advances .....	44,476	2,115,561	2,324,889
- Discounted bills .....	7,022	1,014,820	437,476
Financial assets held under resale agreements ....	21,486	961,066	141,005
Investments .....	249,443	3,299,540	6,081,924
Sub-total .....	<u>524,203</u>	<u>15,493,343</u>	<u>17,005,081</u>
<b>Interest expenses arising from</b>			
Borrowing from the central bank.....	(690)	(30,592)	(28,007)
Deposits from banks and other financial institutions.....	(26,337)	(1,121,096)	(1,161,186)
Placements from banks and other financial institutions.....	—	—	(13,968)
Deposits from customers .....	(158,188)	(3,530,653)	(3,394,251)
Financial assets sold under repurchase agreements .....	(5,776)	(254,716)	(476,471)
Debts securities issued .....	—	(8,180)	(727,871)
Sub-total .....	<u>(190,991)</u>	<u>(4,945,237)</u>	<u>(5,801,754)</u>
<b>Net interest income</b> .....	<u>333,212</u>	<u>10,548,106</u>	<u>11,203,327</u>

Total interest income arising from financial assets that are not at fair value through profit or loss for the period from December 23, 2014 to December 31, 2014 and years ended December 31, 2015 and 2016 amounted to RMB 484.82 million, RMB 14,903.61 million and RMB 16,132.03 million, respectively.

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the period from December 23, 2014 to December 31, 2014 and years ended December 31, 2015 and 2016 amounted to RMB 190.99 million, RMB 4,945.24 million and RMB 5,801.75 million, respectively.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

Interest income arising from impaired financial assets for the period from December 23, 2014 to December 31, 2014 and years ended December 31, 2015 and 2016 amounted to RMB 1.70 million, RMB 105.86 million and RMB 83.75 million, respectively.

**5 Net fee and commission income**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
<b>Fee and commission income</b>			
Settlement and clearing services fees .....	2,725	75,927	61,422
Agency services fees.....	2,148	42,994	74,658
Bank card services fees.....	933	29,405	38,994
Advisory and consulting fees .....	363	9,675	27,754
Wealth management business fees .....	416	14,347	232,898
Acceptance and guarantee services fees .....	5	9,228	48,499
Custodial services fees.....	10	1,164	26,120
Sub-total .....	6,600	182,740	510,345
<b>Fee and commission expense</b> .....	(2,157)	(47,859)	(61,285)
<b>Net fee and commission income</b> .....	4,443	134,881	449,060

**6 Net trading gains/(losses)**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Net gains/(losses) from debt securities .....	8,833	142,378	(79,959)
Net foreign exchange gains.....	—	—	8,242
<b>Net trading gains/(losses)</b> .....	8,833	142,378	(71,717)

Net gains/(losses) from debt securities include gains/(losses) arising from the buying and selling of, and changes in the fair value of financial assets held for trading.

Net foreign exchange gains mainly include gains from translation of foreign currency monetary assets and liabilities into Renminbi.



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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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**7      Net gains/(losses) arising from investment securities**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Net gains on disposal of available-for-sale financial assets .....	21,580	—	9,083
Net gains/(losses) on disposal of held-to-maturity investments .....	16,072	(649)	5
Total .....	<u>37,652</u>	<u>(649)</u>	<u>9,088</u>

**8      Other operating income**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Government grants .....	39,863	152,981	106,351
Rental income .....	1,746	35,344	35,708
Net (losses)/gains on disposal of property and equipment .....	(3,261)	10,133	4,798
Others .....	14,502	27,116	67,123
Total .....	<u>52,850</u>	<u>225,574</u>	<u>213,980</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**9 Operating expenses**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Staff costs			
- Salaries, bonuses and allowances .....	240,669	1,896,763	1,983,482
- Employee education expenses and labor union expenses .....	8,373	85,628	87,702
- Staff welfares.....	7,874	91,321	185,969
- Housing allowances.....	706	78,801	102,178
- Social insurance and annuity .....	592	235,628	283,605
- Supplementary retirement benefits.....	(32)	3,553	4,617
- Others .....	1,082	17,469	36,959
Sub-total .....	259,264	2,409,163	2,684,512
Office expenses.....	94,805	789,605	962,155
Business tax and surcharges .....	26,866	730,046	271,826
Rental and property management expenses .....	21,135	127,768	207,416
Depreciation and amortization.....	14,480	637,813	671,204
Other general and administrative expenses .....	114,551	425,952	339,262
Total .....	531,101	5,120,347	5,136,375

Auditors' remunerations were RMB 0.05 million, RMB 2.08 million, RMB 1.83 million for the period from December 23, 2014 to December 31, 2014 and years ended December 31, 2015 and 2016, respectively.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**10 Directors' and supervisors' emoluments**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows:

Period from December 23, 2014 to December 31, 2014						
Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
<b>Executive directors</b>						
Dou Rongxing .....	—	—	—	—	—	—
Hu Xiangyun .....	—	34	—	2	36	36
Wang Jiong .....	—	12	—	—	12	12
Hao Jingtao .....	—	—	—	—	—	—
Zhang Bin .....	—	12	—	3	15	15
<b>Non-executive directors</b>						
Li Xipeng .....	—	—	—	—	—	—
Zhang Huichen .....	—	—	—	—	—	—
<b>Independent non-executive directors</b>						
Pang Hong .....	—	—	—	—	—	—
Li Hongchang .....	—	—	—	—	—	—
<b>Supervisors</b>						
Ma Guoliang .....	—	—	—	—	—	—
Qin Jianhua .....	—	17	—	4	21	21
Si Qun .....	—	7	—	2	9	9
Zhao Ming .....	—	—	—	—	—	—
Li Weizhen .....	—	—	—	—	—	—
Li Wanbin .....	—	—	—	—	—	—
Li Xiaojian .....	—	—	—	—	—	—
Han Wanghong .....	—	—	—	—	—	—
Li Songyu .....	—	—	—	—	—	—
<b>Total</b> .....	<u>—</u>	<u>82</u>	<u>—</u>	<u>11</u>	<u>93</u>	<u>93</u>

## Year ended December 31, 2015

Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
<b>Executive directors</b>							
Dou Rongxing .....	—	903	3,351	48	4,302	—	4,302
Hu Xiangyun .....	—	613	1,812	52	2,477	—	2,477
Wang Jiong .....	—	814	2,792	50	3,656	—	3,656
Hao Jingtao .....	—	665	2,138	51	2,854	—	2,854
Zhang Bin .....	—	767	2,775	96	3,638	—	3,638
<b>Non-executive directors</b>							
Li Xipeng .....	65	—	—	—	65	—	65
Zhang Huichen .....	30	—	—	—	30	—	30
<b>Independent non-executive directors</b>							
Li Hongchang .....	530	—	—	—	530	—	530
Pang Hong .....	500	—	—	—	500	—	500
<b>Supervisors</b>							
Ma Guoliang .....	—	625	2,138	49	2,812	—	2,812
Qin Jianhua .....	—	573	1,644	90	2,307	—	2,307
Si Qun .....	—	170	1,250	56	1,476	—	1,476
Zhao Ming .....	60	—	—	—	60	—	60
Li Weizhen .....	65	—	—	—	65	—	65
Li Wanbin .....	60	—	—	—	60	—	60
Li Xiaojian .....	—	270	—	—	270	—	270
Han Wanghong .....	—	250	—	—	250	—	250
Li Songyu .....	(1)	270	—	—	270	—	270
<b>Total .....</b>	<b>1,310</b>	<b>5,920</b>	<b>17,900</b>	<b>492</b>	<b>25,622</b>	<b>—</b>	<b>25,622</b>

## Year ended December 31, 2016

	Note	Fees	Salaries	Discretionary bonus	Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	Total emoluments before tax	Of which payment deferred	Actual amount of remuneration paid (pre-tax)
<b>Executive directors</b>								
Dou Rongxing .....		—	1,037	3,237	118	4,392	532	3,860
Hu Xiangyun .....		—	632	2,193	110	2,935	380	2,555
Wang Jiong .....		—	869	2,963	119	3,951	499	3,452
Hao Jingtao .....		—	684	2,407	110	3,201	410	2,791
Zhang Bin .....		—	920	2,083	105	3,108	317	2,791
<b>Non-executive directors</b>								
Li Xipeng .....		25	—	—	—	25	—	25
Zhang Huichen .....	(1)	5	—	—	—	5	—	5
Li Qiaocheng .....	(2)	—	—	—	—	—	—	—
<b>Independent non-executive directors</b>								
Li Hongchang .....		330	—	—	—	330	—	330
Pang Hong .....		330	—	—	—	330	—	330
Jia Tingyu .....	(2)	140	—	—	—	140	—	140
<b>Supervisors</b>								
Ma Guoliang .....		—	684	2,407	118	3,209	409	2,800
Qin Jianhua .....		—	600	2,003	109	2,712	344	2,368
Si Qun .....		—	430	1,217	102	1,749	—	1,749
Zhao Ming .....		20	—	—	—	20	—	20
Li Weizhen .....		30	—	—	—	30	—	30
Li Wanbin .....		25	—	—	—	25	—	25
Li Xiaojian .....		—	180	—	—	180	—	180
Han Wanghong .....		—	180	—	—	180	—	180
Sun Xuemin .....	(2)	—	125	—	—	125	—	125
<b>Total</b> .....		<u>905</u>	<u>6,341</u>	<u>18,510</u>	<u>891</u>	<u>26,647</u>	<u>2,891</u>	<u>23,756</u>

## Notes:

- (1) Li Songyu resigned as supervisor of the Bank from December 28, 2015. Zhang Huichen resigned as non-executive director of the Bank from September 13, 2016.
- (2) At the shareholders' general meeting held on November 28, 2016, Li Qiaocheng was elected as non-executive director of the Bank. At the shareholders' general meeting held on April 26, 2016, Jia Tingyu was elected as independent non-executive director of the Bank, and Sun Xuemin was elected as supervisor of the Bank.

There was no amount paid during the Relevant Periods to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join the Group. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods.

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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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**11 Individuals with highest emoluments**

For the period from December 23, 2014 to December 31, 2014, the five individuals with highest emolument included 3 directors and 2 supervisors. For the years ended December 31, 2015 and 2016, the five individuals with highest emoluments included 4 directors and 1 supervisor of the Bank. Their emoluments are disclosed in Note 10.

**12 Impairment (reversals)/losses on assets**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Loans and advances to customers.....	(121,983)	1,637,109	1,994,627
Debt securities classified as receivables.....	10,951	186,069	76,635
Others.....	58,925	63,944	175,493
Total.....	<u>(52,107)</u>	<u>1,887,122</u>	<u>2,246,755</u>

**13 Income tax**

(a) *Income tax:*

	Note	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
			2015	2016
Current tax.....		730	1,346,160	1,345,539
Deferred tax.....	27(b)	<u>(10,184)</u>	<u>(315,770)</u>	<u>(285,015)</u>
Total.....		<u>(9,454)</u>	<u>1,030,390</u>	<u>1,060,524</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(b) *Reconciliations between income tax and accounting (loss)/profit are as follows:*

	Note	Period from	Years ended December 31,	
		December 23, 2014 to December 31, 2014	2015	2016
(Loss) / profit before tax .....		<u>(41,837)</u>	<u>4,042,821</u>	<u>4,420,608</u>
Statutory tax rate .....		25%	25%	25%
Income tax calculated at statutory tax rate .....		<u>(10,459)</u>	<u>1,010,705</u>	<u>1,105,152</u>
Non-deductible expenses				
- Staff welfare expenses .....		—	8,127	8,505
- Others .....		<u>217</u>	<u>11,350</u>	<u>16,627</u>
		<u>217</u>	<u>19,477</u>	<u>25,132</u>
Non-taxable income .....	(i)	<u>(964)</u>	<u>(15,715)</u>	<u>(97,086)</u>
Current period/year losses for which no deferred tax assets recognized .....		<u>1,752</u>	<u>15,923</u>	<u>27,326</u>
Income tax .....		<u>(9,454)</u>	<u>1,030,390</u>	<u>1,060,524</u>

(i) The non-taxable income mainly represents the interest income from the PRC government bonds.

**14 Basic and diluted earnings per share**

	Note	Years ended December 31,	
		2015	2016
Net profit attributable to equity shareholders of the Bank.....		2,991,400	3,359,071
Weighted average number of ordinary shares (in thousands) .....	(i)	15,430,254	16,625,000
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB).....		0.19	0.20

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Relevant Periods.

Earnings per share information for the period from December 23, 2014 to December 31, 2014 is not presented as loss attributable to equity shareholders of the Bank was incurred for that period.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(i) *Weighted average number of ordinary shares (in thousands)*

	Years ended December 31,	
	2015	2016
Number of ordinary shares as at January 1.....	15,420,541	16,625,000
New added weighted average number of ordinary shares.....	<u>9,713</u>	<u>—</u>
Weighted average number of ordinary shares .....	<u>15,430,254</u>	<u>16,625,000</u>

**15 Cash and deposits with the central bank**

*The Group*

	Note	At December 31,		
		2014	2015	2016
Cash on hand.....		<u>1,358,570</u>	<u>1,253,824</u>	<u>1,292,479</u>
Deposits with the central bank				
- Statutory deposit reserves .....	15(a)	18,923,591	28,359,066	32,029,080
- Surplus deposit reserves.....	15(b)	19,855,411	13,021,045	15,394,722
- Fiscal deposits .....		<u>649,963</u>	<u>636,769</u>	<u>654,612</u>
Sub-total .....		<u>39,428,965</u>	<u>42,016,880</u>	<u>48,078,414</u>
Total .....		<u>40,787,535</u>	<u>43,270,704</u>	<u>49,370,893</u>

*The Bank*

	Note	At December 31,		
		2014	2015	2016
Cash on hand.....		<u>1,328,382</u>	<u>1,207,333</u>	<u>1,244,345</u>
Deposits with the central bank				
- Statutory deposit reserves .....	15(a)	18,457,276	27,927,523	31,580,989
- Surplus deposit reserves.....	15(b)	19,823,202	12,989,874	15,272,865
- Fiscal deposits .....		<u>649,858</u>	<u>636,489</u>	<u>654,612</u>
Sub-total .....		<u>38,930,336</u>	<u>41,553,886</u>	<u>47,508,466</u>
Total .....		<u>40,258,718</u>	<u>42,761,219</u>	<u>48,752,811</u>



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

- (a) The Group 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:

	At December 31,		
	2014	2015	2016
Reserve ratio for RMB deposits .....	17.50%	14.00%	13.50%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

**16 Deposits with banks and other financial institutions**

*Analyzed by type and location of counterparty*

*The Group*

	At December 31,		
	2014	2015	2016
Deposits in mainland China			
- Banks.....	5,002,770	4,779,411	12,666,112
- Other financial institutions.....	156,859	264,975	107,910
Sub-total .....	<u>5,159,629</u>	<u>5,044,386</u>	<u>12,774,022</u>
Deposits outside mainland China			
- Banks.....	—	—	56,470
Total .....	<u>5,159,629</u>	<u>5,044,386</u>	<u>12,830,492</u>

*The Bank*

	At December 31,		
	2014	2015	2016
Deposits in mainland China			
- Banks.....	4,311,858	4,130,819	11,796,252
- Other financial institutions.....	123,194	264,975	107,910
Sub-total .....	<u>4,435,052</u>	<u>4,395,794</u>	<u>11,904,162</u>
Deposits outside mainland China			
- Banks.....	—	—	56,470
Total .....	<u>4,435,052</u>	<u>4,395,794</u>	<u>11,960,632</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**17 Placements with banks and other financial institutions**

*Analyzed by type and location of counterparty*

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
Placements in mainland China			
- Banks.....	6,413	6,413	7,414,703
- Other financial institutions.....	14,983	14,112	1,304,958
Total .....	21,396	20,525	8,719,661
Less: Provision for impairment losses .....	(19,704)	(19,704)	(19,661)
Net carrying amount .....	<u>1,692</u>	<u>821</u>	<u>8,700,000</u>

**18 Financial assets at fair value through profit or loss**

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
Debt securities held for trading purpose			
- Government .....	257,040	285,501	49,551
- Policy banks .....	960,090	5,223,404	1,652,447
- Banks and other financial institutions.....	129,628	2,025,762	49,990
- Corporate .....	1,548,298	9,609,515	2,455,082
Total .....	<u>2,895,056</u>	<u>17,144,182</u>	<u>4,207,070</u>
Listed .....	721,753	675,893	260,148
Unlisted .....	2,173,303	16,468,289	3,946,922
Total .....	<u>2,895,056</u>	<u>17,144,182</u>	<u>4,207,070</u>

*Note:*

As at the end of each of the Relevant Periods, certain financial assets at fair value through profit or loss was pledged for repurchase agreements (Note 30(a)). No other investments were subject to material restrictions on the realization.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**19 Financial assets held under resale agreements**

*(a) Analyzed by type and location of counterparty*

*The Group and the Bank*

	<u>At December 31,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
In mainland China			
- Banks.....	6,236,702	24,559,351	6,073,627
- Other financial institutions.....	<u>2,310,000</u>	<u>—</u>	<u>500,000</u>
Total .....	<u><u>8,546,702</u></u>	<u><u>24,559,351</u></u>	<u><u>6,573,627</u></u>

*(b) Analyzed by type of security held*

*The Group and the Bank*

	<u>At December 31,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Discounted bills.....	1,096,587	18,086,631	—
Debt securities.....	<u>7,450,115</u>	<u>6,472,720</u>	<u>6,573,627</u>
Total .....	<u><u>8,546,702</u></u>	<u><u>24,559,351</u></u>	<u><u>6,573,627</u></u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**20 Loans and advances to customers**

*(a) Analyzed by nature*

*The Group*

	At December 31,		
	2014	2015	2016
Corporate loans and advances .....	71,329,856	99,261,426	110,633,078
Personal loans and advances			
- Personal business loans .....	15,213,390	17,638,242	19,460,542
- Residential mortgage .....	4,105,709	6,366,108	18,878,284
- Personal consumption loans .....	4,702,654	4,155,621	6,127,169
- Others .....	193,621	213,078	193,792
Sub-total .....	24,215,374	28,373,049	44,659,787
Discounted bills .....	15,587,618	11,965,016	9,595,672
Gross loans and advances to customers .....	111,132,848	139,599,491	164,888,537
Less: Provision for impairment losses			
- Individually assessed .....	(1,117,511)	(1,436,409)	(1,400,604)
- Collectively assessed .....	(3,565,547)	(4,287,001)	(4,940,642)
Total provision for impairment losses .....	(4,683,058)	(5,723,410)	(6,341,246)
Net loans and advances to customers .....	106,449,790	133,876,081	158,547,291

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	At December 31,		
	2014	2015	2016
Corporate loans and advances .....	69,767,602	96,844,035	107,908,728
Personal loans and advances			
- Personal business loans .....	14,088,003	16,357,580	17,682,831
- Residential mortgage .....	4,081,777	6,082,342	18,618,951
- Personal consumption loans .....	4,605,196	4,025,217	5,934,530
- Others .....	193,621	213,078	193,792
Sub-total .....	22,968,597	26,678,217	42,430,104
Discounted bills .....	15,587,618	11,965,016	9,595,672
Gross loans and advances to customers .....	108,323,817	135,487,268	159,934,504
Less: Provision for impairment losses			
- Individually assessed .....	(1,091,557)	(1,396,667)	(1,370,192)
- Collectively assessed .....	(3,442,310)	(4,048,495)	(4,573,493)
Total provision for impairment losses .....	(4,533,867)	(5,445,162)	(5,943,685)
Net loans and advances to customers .....	<u>103,789,950</u>	<u>130,042,106</u>	<u>153,990,819</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*(b) Analyzed by economic sector*

*The Group*

	At December 31, 2014		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	27,377,583	24.64%	8,049,053
Wholesale and retail trade.....	14,293,076	12.86%	6,810,045
Real estate .....	7,140,688	6.43%	5,975,410
Construction .....	5,424,886	4.88%	2,440,147
Agriculture, forestry, animal husbandry and fishery .....	3,243,715	2.92%	1,013,240
Education.....	2,226,978	2.00%	940,560
Renting and business activities .....	1,953,320	1.76%	985,150
Water, environment and public utility.....	1,863,970	1.68%	438,180
Accommodation and catering .....	1,518,176	1.37%	778,310
Transportation, storage and postal services.....	1,269,808	1.14%	605,105
Production and supply of electric power, gas and water .	1,247,910	1.12%	298,700
Mining.....	756,240	0.68%	265,600
Others.....	3,013,506	2.70%	1,016,529
Sub-total of corporate loans and advances.....	71,329,856	64.18%	29,616,029
Personal loans and advances .....	24,215,374	21.79%	13,913,571
Discounted bills .....	15,587,618	14.03%	15,323,618
Gross loans and advances to customers.....	<u>111,132,848</u>	<u>100.00%</u>	<u>58,853,218</u>

*The Group*

	At December 31, 2015		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	34,317,488	24.57%	9,504,905
Wholesale and retail trade.....	20,320,323	14.56%	10,466,748
Construction .....	9,153,330	6.56%	3,359,665
Real estate .....	8,680,135	6.22%	7,940,348
Agriculture, forestry, animal husbandry and fishery .....	5,590,907	4.00%	1,524,621
Water, environment and public utility.....	3,057,050	2.19%	1,110,450
Renting and business activities .....	2,830,226	2.03%	1,353,700
Production and supply of electric power, gas and water .	2,582,230	1.85%	1,076,850
Education.....	2,482,972	1.78%	1,149,240
Transportation, storage and postal services.....	2,367,764	1.70%	848,569
Mining.....	2,047,773	1.47%	307,967
Accommodation and catering .....	1,828,164	1.31%	1,053,634
Others .....	4,003,064	2.86%	1,161,315
Sub-total of corporate loans and advances.....	99,261,426	71.10%	40,858,012
Personal loans and advances .....	28,373,049	20.33%	18,575,880
Discounted bills .....	11,965,016	8.57%	11,666,992
Gross loans and advances to customers .....	<u>139,599,491</u>	<u>100.00%</u>	<u>71,100,884</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Group*

	At December 31, 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	33,818,433	20.51%	9,307,325
Wholesale and retail trade.....	21,435,247	13.00%	10,848,261
Construction .....	9,998,497	6.06%	3,920,949
Real estate .....	9,586,305	5.81%	8,913,988
Renting and business activities .....	5,483,633	3.33%	1,782,641
Agriculture, forestry, animal husbandry and fishery .....	5,461,284	3.31%	1,594,573
Water, environment and public utility.....	4,933,050	2.99%	1,586,636
Transportation, storage and postal services.....	3,423,987	2.08%	1,596,005
Mining.....	3,121,696	1.89%	327,788
Production and supply of electric power, gas and water .	2,991,664	1.81%	467,920
Education.....	2,721,614	1.65%	1,197,314
Accommodation and catering .....	2,541,138	1.54%	1,664,191
Others .....	5,116,530	3.11%	1,336,967
Sub-total of corporate loans and advances.....	110,633,078	67.09%	44,544,558
Personal loans and advances .....	44,659,787	27.09%	35,162,671
Discounted bills .....	9,595,672	5.82%	9,394,370
Gross loans and advances to customers .....	<u>164,888,537</u>	<u>100.00%</u>	<u>89,101,599</u>



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	<b>At December 31, 2014</b>		
	<b>Amount</b>	<b>Percentage</b>	<b>Loans and advances secured by collaterals</b>
Manufacturing.....	26,823,147	24.76%	8,014,453
Wholesale and retail trade.....	13,959,386	12.89%	6,776,290
Real estate .....	7,051,688	6.51%	5,911,410
Construction .....	5,313,886	4.91%	2,392,547
Agriculture, forestry, animal husbandry and fishery .....	2,993,242	2.76%	996,800
Education.....	2,176,978	2.01%	930,560
Renting and business activities .....	1,949,320	1.80%	985,150
Water, environment and public utility.....	1,849,470	1.71%	423,680
Accommodation and catering .....	1,463,176	1.35%	778,310
Production and supply of electric power, gas and water .	1,243,110	1.15%	298,700
Transportation, storage and postal services.....	1,214,452	1.12%	595,950
Mining.....	748,240	0.69%	261,600
Others .....	<u>2,981,507</u>	<u>2.75%</u>	<u>1,014,528</u>
Sub-total of corporate loans and advances.....	69,767,602	64.41%	29,379,978
Personal loans and advances .....	22,968,597	21.20%	13,216,713
Discounted bills .....	<u>15,587,618</u>	<u>14.39%</u>	<u>15,323,618</u>
Gross loans and advances to customers .....	<u><u>108,323,817</u></u>	<u><u>100.00%</u></u>	<u><u>57,920,309</u></u>

*The Bank*

	At December 31, 2015		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	33,457,663	24.71%	9,426,350
Wholesale and retail trade.....	19,772,398	14.59%	10,344,605
Construction .....	9,052,594	6.68%	3,322,015
Real estate .....	8,651,579	6.39%	7,917,348
Agriculture, forestry, animal husbandry and fishery .....	5,023,699	3.71%	1,424,661
Water, environment and public utility.....	3,047,050	2.25%	1,100,450
Renting and business activities .....	2,819,236	2.08%	1,353,700
Production and supply of electric power, gas and water .	2,559,530	1.89%	1,076,850
Education.....	2,451,972	1.81%	1,144,240
Transportation, storage and postal services.....	2,281,124	1.68%	821,219
Mining.....	2,040,773	1.51%	307,967
Accommodation and catering .....	1,764,764	1.30%	1,053,184
Others.....	3,921,653	2.88%	1,157,704
Sub-total of corporate loans and advances.....	96,844,035	71.48%	40,450,293
Personal loans and advances .....	26,678,217	19.69%	17,709,555
Discounted bills .....	11,965,016	8.83%	11,666,992
Gross loans and advances to customers.....	<u>135,487,268</u>	<u>100.00%</u>	<u>69,826,840</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	At December 31, 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	32,858,212	20.56%	9,225,717
Wholesale and retail trade.....	20,774,264	12.99%	10,672,444
Construction .....	9,849,876	6.16%	3,889,447
Real estate .....	9,571,683	5.98%	8,902,766
Renting and business activities .....	5,472,243	3.41%	1,782,641
Agriculture, forestry, animal husbandry and fishery .....	4,903,431	3.08%	1,511,393
Water, environment and public utility.....	4,904,550	3.07%	1,578,136
Transportation, storage and postal services.....	3,329,187	2.08%	1,571,105
Mining.....	3,102,996	1.94%	323,088
Production and supply of electric power, gas and water .	2,965,664	1.85%	467,920
Education.....	2,688,614	1.68%	1,192,314
Accommodation and catering .....	2,467,188	1.54%	1,659,191
Others.....	5,020,820	3.13%	1,336,007
Sub-total of corporate loans and advances.....	107,908,728	67.47%	44,112,169
Personal loans and advances .....	42,430,104	26.53%	34,008,742
Discounted bills .....	9,595,672	6.00%	9,394,370
Gross loans and advances to customers.....	<u>159,934,504</u>	<u>100.00%</u>	<u>87,515,281</u>

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 industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

*The Group*

	At December 31, 2014				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing.....	1,081,594	(660,270)	(1,084,110)	(50,276)	18,100
Wholesale and retail trade..	219,215	(123,851)	(442,309)	59,725	—

At December 31, 2015					
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	1,139,259	(835,534)	(1,343,436)	(815,999)	177,270
Wholesale and retail trade..	532,871	(327,471)	(623,422)	(491,286)	76,741

At December 31, 2016					
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	995,681	(717,183)	(1,054,489)	(602,109)	586,210
Wholesale and retail trade..	440,456	(327,976)	(595,008)	(322,452)	100,231

*The Bank*

At December 31, 2014					
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing.....	1,062,416	(643,450)	(1,046,693)	(47,647)	18,100
Wholesale and retail trade..	214,280	(120,076)	(422,059)	63,604	—

At December 31, 2015					
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	1,118,155	(823,413)	(1,248,899)	(761,094)	177,270
Wholesale and retail trade..	506,229	(312,406)	(595,958)	(476,215)	76,741

At December 31, 2016					
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	971,782	(704,088)	(918,626)	(555,991)	586,210
Wholesale and retail trade..	423,862	(317,235)	(562,476)	(319,678)	99,231

(c) *Analyzed by type of collateral**The Group*

	At December 31,		
	2014	2015	2016
Unsecured loans.....	2,371,134	4,061,937	6,671,356
Guaranteed loans .....	49,908,496	64,436,670	69,115,582
Collateralised.....	37,957,067	47,686,762	63,991,525
Pledged.....	20,896,151	23,414,122	25,110,074
Gross loans and advances to customers.....	111,132,848	139,599,491	164,888,537
Less: Provision for impairment losses .....			
- Individually assessed.....	(1,117,511)	(1,436,409)	(1,400,604)
- Collectively assessed.....	(3,565,547)	(4,287,001)	(4,940,642)
Total provision for impairment losses .....	(4,683,058)	(5,723,410)	(6,341,246)
Net loans and advances to customers .....	106,449,790	133,876,081	158,547,291

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	At December 31,		
	2014	2015	2016
Unsecured loans .....	2,369,718	4,058,887	6,638,940
Guaranteed loans .....	48,033,790	61,601,541	65,780,283
Collateralised .....	37,315,421	46,750,167	62,959,787
Pledged .....	20,604,888	23,076,673	24,555,494
Gross loans and advances to customers .....	<u>108,323,817</u>	<u>135,487,268</u>	<u>159,934,504</u>
Less: Provision for impairment losses			
- Individually assessed .....	(1,091,557)	(1,396,667)	(1,370,192)
- Collectively assessed .....	(3,442,310)	(4,048,495)	(4,573,493)
Total provision for impairment losses .....	<u>(4,533,867)</u>	<u>(5,445,162)</u>	<u>(5,943,685)</u>
Net loans and advances to customers .....	<u>103,789,950</u>	<u>130,042,106</u>	<u>153,990,819</u>

(d) *Overdue loans analyzed by overdue period*

*The Group*

	At 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 .....	11,969	7,244	26,422	1,463	47,098
Guaranteed loans .....	1,975,519	1,169,456	560,395	179,207	3,884,577
Collateralised .....	439,179	320,365	422,742	91,534	1,273,820
Pledged .....	209,313	123,167	8,536	1,520	342,536
Total .....	<u>2,635,980</u>	<u>1,620,232</u>	<u>1,018,095</u>	<u>273,724</u>	<u>5,548,031</u>
As a percentage of gross loans and advances to customers .....	<u>2.37%</u>	<u>1.46%</u>	<u>0.92%</u>	<u>0.24%</u>	<u>4.99%</u>

## At December 31, 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 .....	3,715	23,563	10,614	9,600	47,492
Guaranteed loans .....	3,874,944	3,362,828	1,374,233	106,689	8,718,694
Collateralised .....	2,642,235	1,399,680	620,161	79,386	4,741,462
Pledged .....	856,869	177,682	27,257	1,128	1,062,936
Total .....	<u>7,377,763</u>	<u>4,963,753</u>	<u>2,032,265</u>	<u>196,803</u>	<u>14,570,584</u>
As a percentage of gross loans and advances to customers .....	<u>5.28%</u>	<u>3.56%</u>	<u>1.46%</u>	<u>0.14%</u>	<u>10.44%</u>

## At December 31, 2016

	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 .....	1,656	1,784	50,691	3,196	57,327
Guaranteed loans .....	2,129,981	869,279	929,117	38,992	3,967,369
Collateralised .....	1,871,516	789,552	631,821	47,596	3,340,485
Pledged .....	16,825	44,296	701,350	—	762,471
Total .....	<u>4,019,978</u>	<u>1,704,911</u>	<u>2,312,979</u>	<u>89,784</u>	<u>8,127,652</u>
As a percentage of gross loans and advances to customers .....	<u>2.44%</u>	<u>1.03%</u>	<u>1.40%</u>	<u>0.05%</u>	<u>4.92%</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

**At December 31, 2014**

	<b>Overdue within three months (inclusive)</b>	<b>Overdue more than three months to one year (inclusive)</b>	<b>Overdue more than one year to three years (inclusive)</b>	<b>Overdue more than three years</b>	<b>Total</b>
Unsecured loans.....	11,969	7,244	26,422	1,463	47,098
Guaranteed loans .....	1,944,762	1,108,676	509,863	179,207	3,742,508
Collateralised.....	430,024	317,599	417,551	91,534	1,256,708
Pledged.....	209,313	98,167	8,536	1,520	317,536
<b>Total .....</b>	<b>2,596,068</b>	<b>1,531,686</b>	<b>962,372</b>	<b>273,724</b>	<b>5,363,850</b>
As a percentage of gross loans and advances to customers .....	<u>2.40%</u>	<u>1.41%</u>	<u>0.89%</u>	<u>0.25%</u>	<u>4.95%</u>

**At December 31, 2015**

	<b>Overdue within three months (inclusive)</b>	<b>Overdue more than three months to one year (inclusive)</b>	<b>Overdue more than one year to three years (inclusive)</b>	<b>Overdue more than three years</b>	<b>Total</b>
Unsecured loans.....	3,715	23,563	10,614	9,600	47,492
Guaranteed loans .....	3,758,025	3,148,586	1,223,806	106,586	8,237,003
Collateralised.....	2,611,710	1,377,190	617,440	79,386	4,685,726
Pledged.....	856,869	167,682	27,257	1,128	1,052,936
<b>Total .....</b>	<b>7,230,319</b>	<b>4,717,021</b>	<b>1,879,117</b>	<b>196,700</b>	<b>14,023,157</b>
As a percentage of gross loans and advances to customers .....	<u>5.34%</u>	<u>3.48%</u>	<u>1.39%</u>	<u>0.14%</u>	<u>10.35%</u>



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

At December 31, 2016					
	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 .....	1,656	1,784	50,691	3,196	57,327
Guaranteed loans .....	1,990,623	755,708	722,821	28,641	3,497,793
Collateralised .....	1,797,539	769,085	616,908	47,596	3,231,128
Pledged .....	16,304	44,296	701,350	—	761,950
<b>Total .....</b>	<b><u>3,806,122</u></b>	<b><u>1,570,873</u></b>	<b><u>2,091,770</u></b>	<b><u>79,433</u></b>	<b><u>7,548,198</u></b>
As a percentage of gross loans and advances to customers .....	<u>2.38%</u>	<u>0.98%</u>	<u>1.31%</u>	<u>0.05%</u>	<u>4.72%</u>

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

**(e) Loans and advances and provision for impairment losses**

*The Group*

At December 31, 2014					
	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	108,997,611	261,254	1,873,983	111,132,848	1.92%
Less: Provision for impairment losses .....	<u>(3,399,926)</u>	<u>(165,621)</u>	<u>(1,117,511)</u>	<u>(4,683,058)</u>	
<b>Net loans and advances to customers .....</b>	<b><u>105,597,685</u></b>	<b><u>95,633</u></b>	<b><u>756,472</u></b>	<b><u>106,449,790</u></b>	

## At December 31, 2015

	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	136,880,283	603,075	2,116,133	139,599,491	1.95%
Less: Provision for impairment losses .....	<u>(3,880,276)</u>	<u>(406,725)</u>	<u>(1,436,409)</u>	<u>(5,723,410)</u>	
Net loans and advances to customers .....	<u>133,000,007</u>	<u>196,350</u>	<u>679,724</u>	<u>133,876,081</u>	

## At December 31, 2016

	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	161,826,397	1,090,763	1,971,377	164,888,537	1.86%
Less: Provision for impairment losses .....	<u>(4,106,671)</u>	<u>(833,971)</u>	<u>(1,400,604)</u>	<u>(6,341,246)</u>	
Net loans and advances to customers .....	<u>157,719,726</u>	<u>256,792</u>	<u>570,773</u>	<u>158,547,291</u>	

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

**At December 31, 2014**

	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	106,224,606	256,312	1,842,899	108,323,817	1.94%
Less: Provision for impairment losses .....	<u>(3,279,830)</u>	<u>(162,480)</u>	<u>(1,091,557)</u>	<u>(4,533,867)</u>	
Net loans and advances to customers .....	<u>102,944,776</u>	<u>93,832</u>	<u>751,342</u>	<u>103,789,950</u>	

**At December 31, 2015**

	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	132,848,467	588,453	2,050,348	135,487,268	1.95%
Less: Provision for impairment losses .....	<u>(3,649,113)</u>	<u>(399,382)</u>	<u>(1,396,667)</u>	<u>(5,445,162)</u>	
Net loans and advances to customers .....	<u>129,199,354</u>	<u>189,071</u>	<u>653,681</u>	<u>130,042,106</u>	

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

At December 31, 2016

	Loans and advances for which provision are collectively assessed (Note(i))	Impaired loans and advances (Note (ii))		Total	Gross impaired loans and advances as a percentage of gross loans and advances
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers .....	156,945,685	1,070,198	1,918,621	159,934,504	1.87%
Less: Provision for impairment losses .....	<u>(3,752,611)</u>	<u>(820,882)</u>	<u>(1,370,192)</u>	<u>(5,943,685)</u>	
Net loans and advances to customers .....	<u>153,193,074</u>	<u>249,316</u>	<u>548,429</u>	<u>153,990,819</u>	

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. 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 Note (i) and (ii) above, are set out in Note 46(a).
- (iv) As at December 31, 2014, 2015 and 2016, impaired loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB 1,873.98 million, RMB 2,116.13 million and RMB 1,971.38 million, respectively. The covered portion of these loans and advances were RMB 539.76 million, RMB 729.73 million and RMB 891.22 million, respectively. The uncovered portion of these loans and advances were RMB 1,334.22 million, RMB 1,386.40 million and RMB 1,080.16 million, respectively. The fair value of collateral held against these loans and advances amounted to RMB 249.51 million, RMB 295.08 million and RMB 302.52 million, respectively. As at December 31, 2014, 2015 and 2016, the individual impairment allowances made for these loans and advances were RMB 1,117.51 million, RMB 1,436.41 million and RMB 1,400.60 million, respectively.

As at December 31, 2014, 2015 and 2016, impaired loans and advances of the Bank for which the impairment allowances were individually assessed amounted to RMB 1,842.90 million, RMB 2,050.35 million and RMB 1,918.62 million, respectively. The covered portion of these loans and advances were RMB 539.76 million, RMB 725.54 million and RMB 883.21 million, respectively. The uncovered portion of these loans and advances were RMB 1,303.14 million, RMB 1,324.81 million and RMB 1,035.41 million, respectively. The fair value of collateral held against these loans and advances amounted to RMB 249.51 million, RMB 293.96 million and RMB 300.77 million, respectively. As at December 31, 2014, 2015 and 2016, the individual impairment allowances made for these loans and advances were RMB 1,091.56 million, RMB 1,396.67 million and RMB 1,370.19 million, respectively.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*(f) Movements of provision for impairment losses*

*The Group*

	At December 31, 2014			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
Additions relating to acquisition of				
Business .....	3,664,370	275,329	974,734	4,914,433
Charge for the period .....	3,478	—	263,203	266,681
Release for the period .....	(267,922)	(104,498)	(16,244)	(388,664)
Recoveries .....	—	3	18	21
Write-offs .....	—	(5,213)	(102,500)	(107,713)
Unwinding of discount .....	—	—	(1,700)	(1,700)
As at December 31 .....	<u>3,399,926</u>	<u>165,621</u>	<u>1,117,511</u>	<u>4,683,058</u>

	At December 31, 2015			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1 .....	3,399,926	165,621	1,117,511	4,683,058
Obtain the control of subsidiaries .....	14,854	—	—	14,854
Charge for the year .....	465,496	261,551	935,877	1,662,924
Release for the year .....	—	—	(25,815)	(25,815)
Transfer out .....	—	—	(190,774)	(190,774)
Recoveries .....	—	1,099	4,689	5,788
Write-offs .....	—	(21,546)	(299,222)	(320,768)
Unwinding of discount .....	—	—	(105,857)	(105,857)
As at December 31 .....	<u>3,880,276</u>	<u>406,725</u>	<u>1,436,409</u>	<u>5,723,410</u>

	At December 31, 2016			
	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 .....	3,880,276	406,725	1,436,409	5,723,410
Charge for the year .....	1,138,442	474,791	623,176	2,236,409
Release for the year .....	(195,653)	—	(46,129)	(241,782)
Transfer out .....	(716,394)	—	—	(716,394)
Recoveries .....	—	2,057	234,412	236,469
Write-offs .....	—	(49,602)	(763,517)	(813,119)
Unwinding of discount .....	—	—	(83,747)	(83,747)
As at December 31 .....	<u>4,106,671</u>	<u>833,971</u>	<u>1,400,604</u>	<u>6,341,246</u>

*The Bank*

	At December 31, 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	
Additions relating to acquisition of Business .....	3,547,752	270,398	955,911	4,774,061
Charge for the period .....	—	—	254,759	254,759
Release for the period .....	(267,922)	(102,708)	(14,964)	(385,594)
Recoveries .....	—	3	18	21
Write-offs .....	—	(5,213)	(102,500)	(107,713)
Unwinding of discount .....	—	—	(1,667)	(1,667)
As at December 31 .....	<u>3,279,830</u>	<u>162,480</u>	<u>1,091,557</u>	<u>4,533,867</u>

	At December 31, 2015			
	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 .....	3,279,830	162,480	1,091,557	4,533,867
Charge for the year .....	369,283	257,205	915,139	1,541,627
Release for the year .....	—	—	(24,254)	(24,254)
Transfer out .....	—	—	(190,774)	(190,774)
Recoveries .....	—	1,099	4,689	5,788
Write-offs .....	—	(21,402)	(299,221)	(320,623)
Unwinding of discount .....	—	—	(100,469)	(100,469)
As at December 31 .....	<u>3,649,113</u>	<u>399,382</u>	<u>1,396,667</u>	<u>5,445,162</u>
	At December 31, 2016			
	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 .....	3,649,113	399,382	1,396,667	5,445,162
Charge for the year .....	1,015,545	465,236	604,487	2,085,268
Release for the year .....	(195,653)	—	(28,625)	(224,278)
Transfer out .....	(716,394)	—	—	(716,394)
Recoveries .....	—	1,973	234,412	236,385
Write-offs .....	—	(45,709)	(759,517)	(805,226)
Unwinding of discount .....	—	—	(77,232)	(77,232)
As at December 31 .....	<u>3,752,611</u>	<u>820,882</u>	<u>1,370,192</u>	<u>5,943,685</u>

(g) *Disposal of loans and advances to customers*

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB 8,623.80 million to asset management companies and institutional investors at a consideration of RMB 8,270.01 million. As at December 31, 2016, the Group has received cash of RMB 6,456.75 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule (see Note 29).

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

In 2015, the Group disposed certain loans with gross amount of RMB 213.77 million to assets management companies, and the total consideration received by the Group was RMB 23.00 million.

**21 Available-for-sale financial assets**

*The Group*

	Note	At December 31,		
		2014	2015	2016
Equity investments at cost				
- unlisted .....	21(a)	23,896	23,896	23,896
Debt securities				
- Government .....		50,616	861,655	8,528,073
- Policy banks .....		1,240,289	1,146,195	11,768,748
- Banks and other financial institutions.....		330,597	3,027,712	25,004,081
- Corporate .....		101,123	407,072	6,480,321
Subtotal .....		1,722,625	5,442,634	51,781,223
Listed .....		50,615	1,061,655	9,002,475
Unlisted .....		1,672,010	4,380,979	42,778,748
Investment management products managed by securities companies and trust plans				
- unlisted .....		541,750	2,651,233	9,389,752
Wealth management products issued by financial institutions				
- unlisted .....		1,568,598	16,845,600	34,287,700
Investment fund managed by private fund manager				
- unlisted .....	21(b)	—	—	5,522,250
Investment portfolio managed by financial institutions				
- unlisted .....	21(c)	1,753,033	—	1,253,988
Total .....		5,609,902	24,963,363	102,258,809



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	Note	At December 31,		
		2014	2015	2016
Equity investment at cost				
- unlisted .....	21(a)	23,896	23,896	23,896
Debt securities				
- Government .....		50,616	861,655	8,528,073
- Policy banks .....		1,240,289	1,146,195	11,768,748
- Banks and other financial institutions.....		330,597	3,027,712	25,004,081
- Corporate .....		101,123	407,072	6,480,321
Subtotal .....		<u>1,722,625</u>	<u>5,442,634</u>	<u>51,781,223</u>
Listed .....		50,615	1,061,655	9,002,475
Unlisted .....		1,672,010	4,380,979	42,778,748
Investment management products managed by securities companies and trust plans				
- unlisted .....		541,750	2,651,233	9,389,752
Wealth management products				
- unlisted .....		1,538,598	16,795,600	34,287,700
Investment fund managed by private fund manager				
- unlisted .....	21(b)	—	—	5,522,250
Investment portfolio managed by financial institutions				
- unlisted .....	21(c)	<u>1,753,033</u>	<u>—</u>	<u>1,253,988</u>
Total .....		<u><u>5,579,902</u></u>	<u><u>24,913,363</u></u>	<u><u>102,258,809</u></u>

*Notes:*

- (a) Available-for-sale unlisted equity investments which do not have any quoted price in an active market for an identical instrument and whose fair values cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.
- (b) The underlying assets of investment fund managed by private fund manager are the beneficial rights of certain loans. The principal of the investment fund is guaranteed by an asset management company in the PRC.
- (c) Investment portfolio managed by financial institutions represented investments in funds, bonds, trust schemes, and wealth management products.
- (d) As at the end of each of the Relevant Periods, certain available-for-sale financial assets were pledged for repurchase agreements (Note 30(a)). No other investments were subject to material restrictions on the realization.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**22 Held-to-maturity investments**

*Analyzed by type and location of issuers*

*The Group and the Bank*

	Note	At December 31,		
		2014	2015	2016
Debt securities issued by the following institutions in mainland China				
- Government .....		1,355,264	3,482,802	11,308,683
- Policy banks .....		8,137,464	7,610,278	6,443,130
- Banks and other financial institutions.....		558,756	469,966	100,000
- Corporate .....		1,263,699	1,172,430	—
Total .....	22(a)	<u>11,315,183</u>	<u>12,735,476</u>	<u>17,851,813</u>
Listed .....		1,318,669	3,387,719	10,938,704
Unlisted .....		9,996,514	9,347,757	6,913,109
Total .....	22(a)	<u>11,315,183</u>	<u>12,735,476</u>	<u>17,851,813</u>
Fair value .....		<u>11,309,753</u>	<u>13,094,420</u>	<u>17,833,300</u>

*Notes:*

- (a) As at the end of each of the Relevant Periods, certain held-to-maturity investments were pledged as security for repurchase agreements (Note 30(a)).
- (b) The Group did not dispose of material held-to-maturity debt investments prior to their maturity dates during the Relevant Periods.

**23 Debt securities classified as receivables**

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
Wealth management products issued by financial institutions.....	153,798	1,883,000	—
Investment management products managed by securities companies and trust plans.....	17,035,016	32,581,136	53,963,887
Investment management products managed by private fund manager.....	—	—	5,373,500
Total .....	17,188,814	34,464,136	59,337,387
Less: Provision for impairment losses .....	(396,357)	(582,426)	(659,061)
Net carrying amount .....	<u>16,792,457</u>	<u>33,881,710</u>	<u>58,678,326</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**24 Interests in associates**

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
Interests in associates .....	55,370	—	—
Total .....	<u>55,370</u>	<u>—</u>	<u>—</u>

The following list contains the Group's associates, all of which are individually immaterial to the Group and are unlisted corporate entities whose quoted market price is not available:

*The Group and the Bank*

Name	Percentages of equity/voting rights at December 31, 2014	Place of incorporation/ registration	Business sector
Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") .....	41%	Henan, China	Banking
Suiping Hengsheng County Bank Co., Ltd. ("Suiping Hengsheng") .....	45%	Henan, China	Banking

Pursuant to the acting in concert arrangement between the Bank and certain other shareholders of Xiangcheng Huipu and Suiping Hengsheng, the two county banks were controlled by the Bank and have become subsidiaries of the Bank since 2015.

The following tables illustrate the aggregate information of the Group's associates that are not individually material:

	At December 31, 2014
Aggregate carrying amount of individually immaterial associates in the combined financial statements .....	55,370
Aggregate amounts of the Bank's share of results of those associates .....	167
- Profit from continuing operations .....	167
- Other comprehensive income .....	—
- Total comprehensive income .....	167

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**25 Investments in subsidiaries**

*The Bank*

	Note	At December 31,		
		2014	2015	2016
Xiping Fortune County Bank Co., Ltd. (“西平財富村鎮銀行股份有限公司”) .....	(a)	104,598	104,598	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (“信陽平橋中原村鎮銀行股份有限公司”) .....	(b)	38,341	38,341	38,341
Qixian Zhongyuan County Bank Co., Ltd. (“淇縣中原村鎮銀行股份有限公司”) .....	(c)	41,531	41,531	41,531
Henan Xinxiang Xinxing County Bank Co., Ltd. (“河南新鄉新興村鎮銀行股份有限公司”) .....	(d)	58,806	58,806	58,806
Linzhou Defeng County Bank Co., Ltd. (“林州德豐村鎮銀行股份有限公司”) .....	(e)	29,771	29,771	29,771
Puyang Zhongyuan County Bank Co., Ltd. (“濮陽中原村鎮銀行股份有限公司”) .....	(f)	30,736	30,736	30,736
Lushi Defeng County Bank Co., Ltd. (“盧氏德豐村鎮銀行股份有限公司”) .....	(g)	22,494	22,494	32,497
Xiangcheng Huipu County Bank Co., Ltd. (“襄城匯浦村鎮銀行股份有限公司”) .....	(h)	—	28,250	28,250
Suiping Hengsheng County Bank Co., Ltd. (“遂平恆生村鎮銀行股份有限公司”) .....	(i)	—	27,120	27,120
Henan Zhongyuan Consumer Finance Corp., Ltd. (“河南中原消費金融股份有限公司”) ..	(j)	—	—	325,000
<b>Total .....</b>		<u>326,277</u>	<u>381,647</u>	<u>788,738</u>

*Notes:*

- (a) Xiping Fortune County Bank Co., Ltd. (“Xiping Fortune”) was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB 208.52 million. The principal activities of Xiping Fortune are the provision of corporate and retail banking services. Xiping Fortune was the subsidiary of one of the Predecessor Entities and became the subsidiary of the Bank when the Bank established. The Bank holds 54.29% of equity interest and voting rights of Xiping Fortune in 2014 and 2015, and 43.69% in 2016. According to the acting in concert arrangement between the Bank and certain other shareholders with 32.99% equity interest of Xiping Fortune in 2016, Xiping Fortune was deemed to be controlled by the Bank and was a subsidiary of the Bank during the Relevant Periods. The statutory financial statements of Xiping Fortune for the years ended December 31, 2014 and 2015 were audited by Zhongqin Wanxin Certified Public Accountants LLP (Henan Office).
- (b) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (“Xinyang Pingqiao”, formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB 69.60 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. Xinyang Pingqiao was the subsidiary of one of the Predecessor Entities and became the subsidiary of the Bank when the Bank established. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao. The statutory financial statements of Xinyang Pingqiao for the years ended December 31, 2014 and 2015 were audited by Xinyang Tianfenglianhe Certified Public Accountants LLP. The statutory financial statements of Xinyang Pingqiao for the year ended December 31, 2016 were audited by KPMG Huazhen LLP.

- (c) Qixian Zhongyuan County Bank Co., Ltd. (“Qixian Zhongyuan”, formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB 50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. Qixian Zhongyuan was the subsidiary of one of the Predecessor Entities and became the subsidiary of the Bank when the Bank established. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan. The statutory financial statements of Qixian Zhongyuan for the years ended December 31, 2014, 2015 and 2016 were audited by Henan Zhongxinda Certified Public Accountants Co., Ltd., BDO China Shu Lun Pan Certified Public Accountants LLP and KPMG Huazhen LLP, respectively.
- (d) Henan Xinxiang Xinxing County Bank Co., Ltd. (“Xinxiang Xinxing”) was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB 130.00 million. The principal activities of Xinxiang Xinxing are the provision of corporate and retail banking services. Xinxiang Xinxing was the subsidiary of one of the Predecessor Entities before the Bank established. The Bank holds 31.54% of equity interest of Xinxiang Xinxing. According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Xinxing, Xinxiang Xinxing was deemed to be controlled by the Bank and was a subsidiary of the Bank during the Relevant Periods. The statutory financial statements of Xinxiang Xinxing for the years ended December 31, 2014 and 2015 were audited by Xinxiang Zhongchenglianhe Certified Public Accountants (General Partnership) and BDO China Shu Lun Pan Certified Public Accountants LLP, respectively.
- (e) Linzhou Defeng County Bank Co., Ltd. (“Linzhou Defeng”) was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB 50.00 million. The principal activities of Linzhou Defeng are the provision of corporate and retail banking services. Linzhou Defeng was the subsidiary of one of the Predecessor Entities and became the subsidiary of the Bank when the Bank established. The Bank holds 51% of equity interest and voting rights of Linzhou Defeng. The statutory financial statements of Linzhou Defeng for the years ended December 31, 2014 and 2015 were audited by Henan Yongtai Certified Public Accountants (General Partnership) and BDO China Shu Lun Pan Certified Public Accountants LLP, respectively.
- (f) Puyang Zhongyuan County Bank Co., Ltd. (“Puyang Zhongyuan”, formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB 58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. Puyang Zhongyuan was the subsidiary of one of the Predecessor Entities and became the subsidiary of the Bank when the Bank established. The Bank holds 51%, 51.57% and 51% of equity interest and voting rights of Puyang Zhongyuan in 2014, 2015 and 2016, respectively. The statutory financial statements of Puyang Zhongyuan for the years ended December 31, 2014, 2015 and 2016 were audited by Henan Zhongxinda Certified Public Accountants Co., Ltd, BDO China Shu Lun Pan Certified Public Accountants LLP and KPMG Huazhen LLP, respectively.
- (g) Lushi Defeng County Bank Co., Ltd. (“Lushi Defeng”) was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB 60.00 million. The principal activities of Lushi Defeng are the provision of corporate and retail banking services. Lushi Defeng was the subsidiary of one of the Predecessor Entities before the Bank established. The Bank holds 35% of equity interest of Lushi Defeng in 2014 and 2015, and 51% in 2016. According to the acting in concert arrangement between the Bank and certain other shareholders with 20% equity interest of Lushi Defeng, Lushi Defeng was deemed to be controlled by the Bank and was a subsidiary of the Bank during the Relevant Periods. The statutory financial statements of Lushi Defeng for the years ended December 31, 2014 and 2015 were audited by Lingbao Yonglin Certified Public Accountants Co., Ltd. and BDO China Shu Lun Pan Certified Public Accountants LLP, respectively.
- (h) Xiangcheng Huipu County Bank Co., Ltd. (“Xiangcheng Huipu”) was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB 61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. The Bank holds 41% of equity interest of Xiangcheng Huipu and Xiangcheng Huipu was one of the associate of the Bank as at December 31, 2014. According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015. The statutory financial statements of Xiangcheng Huipu for the year ended December 31, 2015 was audited by BDO China Shu Lun Pan Certified Public Accountants LLP.
- (i) Suiping Hengsheng County Bank Co., Ltd. (“Suiping Hengsheng”) was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB 50.00 million. The principal activities of Suiping Hengsheng are the provision of corporate and retail banking services. The Bank holds 45% of equity interest of Suiping Hengsheng and Suiping Hengsheng was one of the associate of the Bank as at December 31, 2014. According to the acting in concert arrangement between the Bank and certain other shareholders with 33% equity interest of Suiping Hengsheng, Suiping Hengsheng was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (j) Henan Zhongyuan Consumer Finance Corp., Ltd. (“Consumer Finance”) was incorporated on December 29, 2016 at Zhengzhou, Henan Province, with registered capital of RMB 500.00 million. The principal activities of Consumer Finance is the provision loans for consumption. As at December 31, 2016, the Bank holds 65% of equity interest and voting rights of Consumer Finance. The statutory financial statements of Consumer Finance were audited by KPMG Huazhen LLP.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**26 Property and equipment**

*The Group*

	<u>Premises</u>	<u>Investment properties</u>	<u>Electronic equipments</u>	<u>Motor vehicles</u>	<u>Office equipment &amp; others</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost</b>							
Additions relating to acquisition of Business ..	5,100,252	164,403	596,199	118,590	239,086	420,194	6,638,724
Additions .....	2,269	—	57,962	6,207	30,581	36,365	133,384
Transfers in / (out) of construction in progress ..	46,348	—	—	—	—	(46,348)	—
Disposals.....	—	—	—	(87)	—	—	(87)
As at December 31, 2014 ....	<u>5,148,869</u>	<u>164,403</u>	<u>654,161</u>	<u>124,710</u>	<u>269,667</u>	<u>410,211</u>	<u>6,772,021</u>
Acquired on acquisitions of subsidiaries .....	1,459	—	1,832	1,961	36,365	—	41,617
Additions .....	40,800	—	115,615	5,135	108,756	45,414	315,720
Transfers in / (out) of construction in progress ..	179	—	284	320	—	(783)	—
Disposals.....	<u>(17,353)</u>	<u>(89)</u>	<u>(11,539)</u>	<u>(72,919)</u>	<u>(33,279)</u>	<u>(18,055)</u>	<u>(153,234)</u>
As at December 31, 2015 ....	<u>5,173,954</u>	<u>164,314</u>	<u>760,353</u>	<u>59,207</u>	<u>381,509</u>	<u>436,787</u>	<u>6,976,124</u>
Additions .....	297,622	—	205,359	617	63,714	63,180	630,492
Disposals.....	(121,774)	(5,821)	(29,302)	(27,137)	(81,790)	—	(265,824)
Transfers out of construction in progress ..	—	—	—	—	—	(49,170)	(49,170)
As at December 31, 2016 ....	<u>5,349,802</u>	<u>158,493</u>	<u>936,410</u>	<u>32,687</u>	<u>363,433</u>	<u>450,797</u>	<u>7,291,622</u>
<b>Accumulated depreciation</b>							
Additions relating to acquisition of Business....	(924,663)	(47,848)	(462,481)	(99,416)	(102,235)	—	(1,636,643)
Additions .....	(6,043)	(515)	(2,307)	(518)	(679)	—	(10,062)
Disposals.....	—	—	—	38	—	—	38
As at December 31, 2014 ....	<u>(930,706)</u>	<u>(48,363)</u>	<u>(464,788)</u>	<u>(99,896)</u>	<u>(102,914)</u>	<u>—</u>	<u>(1,646,667)</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Acquired on acquisitions of subsidiaries .....	—	—	(524)	(895)	(1,028)	—	(2,447)
Additions .....	(323,661)	(11,514)	(72,438)	(6,264)	(86,453)	—	(500,330)
Disposals.....	5,133	63	2,150	60,348	3,679	—	71,373
As at December 31, 2015 ....	<u>(1,249,234)</u>	<u>(59,814)</u>	<u>(535,600)</u>	<u>(46,707)</u>	<u>(186,716)</u>	<u>—</u>	<u>(2,078,071)</u>
Additions .....	(309,280)	(11,092)	(127,250)	(2,458)	(30,787)	—	(480,867)
Disposals.....	12,120	2,129	23,700	21,941	6,148	—	66,038
As at December 31, 2016 ....	<u>(1,546,394)</u>	<u>(68,777)</u>	<u>(639,150)</u>	<u>(27,224)</u>	<u>(211,355)</u>	<u>—</u>	<u>(2,492,900)</u>
<b>Impairment</b>							
Additions relating to acquisition of Business....	(29,771)	(26)	(2,446)	(1,043)	(2,917)	—	(36,203)
As at December 31, 2014 ....	<u>(29,771)</u>	<u>(26)</u>	<u>(2,446)</u>	<u>(1,043)</u>	<u>(2,917)</u>	<u>—</u>	<u>(36,203)</u>
Additions .....	—	—	(59)	—	—	—	(59)
Disposals.....	—	26	—	—	—	—	26
As at December 31, 2015 ....	<u>(29,771)</u>	<u>—</u>	<u>(2,505)</u>	<u>(1,043)</u>	<u>(2,917)</u>	<u>—</u>	<u>(36,236)</u>
Disposals.....	21,295	—	42	760	885	—	22,982
As at December 31, 2016 ....	<u>(8,476)</u>	<u>—</u>	<u>(2,463)</u>	<u>(283)</u>	<u>(2,032)</u>	<u>—</u>	<u>(13,254)</u>
<b>Net book value</b>							
As at December 31, 2014 ....	<u>4,188,392</u>	<u>116,014</u>	<u>186,927</u>	<u>23,771</u>	<u>163,836</u>	<u>410,211</u>	<u>5,089,151</u>
As at December 31, 2015 ....	<u>3,894,949</u>	<u>104,500</u>	<u>222,248</u>	<u>11,457</u>	<u>191,876</u>	<u>436,787</u>	<u>4,861,817</u>
As at December 31, 2016 ....	<u>3,794,932</u>	<u>89,716</u>	<u>294,797</u>	<u>5,180</u>	<u>150,046</u>	<u>450,797</u>	<u>4,785,468</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
<b>Cost</b>							
Additions relating to acquisition of Business ..	5,072,855	164,403	586,232	115,603	229,760	416,806	6,585,659
Additions .....	—	—	57,818	6,169	29,066	36,365	129,418
Transfers in / (out) of construction in progress ..	46,348	—	—	—	—	(46,348)	—
As at December 31, 2014 ....	5,119,203	164,403	644,050	121,772	258,826	406,823	6,715,077
Additions .....	40,659	—	113,590	2,838	106,750	45,173	309,010
Transfers in / (out) of construction in progress ..	—	—	226	—	—	(226)	—
Disposals.....	(17,353)	(89)	(11,337)	(72,919)	(33,279)	(17,698)	(152,675)
As at December 31, 2015 ....	5,142,509	164,314	746,529	51,691	332,297	434,072	6,871,412
Additions .....	263,119	—	194,330	424	61,487	62,645	582,005
Disposals.....	(121,625)	(5,821)	(29,243)	(24,645)	(45,171)	—	(226,505)
Transfers out of construction in progress ..	—	—	—	—	—	(49,170)	(49,170)
As at December 31, 2016 ....	5,284,003	158,493	911,616	27,470	348,613	447,547	7,177,742
<b>Accumulated depreciation</b>							
Additions relating to acquisition of Business....	(922,589)	(47,848)	(457,346)	(97,697)	(99,230)	—	(1,624,710)
Additions .....	(5,961)	(515)	(2,232)	(497)	(617)	—	(9,822)
As at December 31, 2014 ....	(928,550)	(48,363)	(459,578)	(98,194)	(99,847)	—	(1,634,532)
Additions .....	(322,081)	(11,514)	(68,543)	(5,134)	(82,521)	—	(489,793)
Disposals.....	5,133	63	1,955	60,348	3,387	—	70,886
As at December 31, 2015 ....	(1,245,498)	(59,814)	(526,166)	(42,980)	(178,981)	—	(2,053,439)
Additions .....	(304,542)	(11,092)	(122,132)	(1,492)	(31,321)	—	(470,579)
Disposals.....	12,120	2,129	23,230	20,447	6,237	—	64,163
As at December 31, 2016 ....	(1,537,920)	(68,777)	(625,068)	(24,025)	(204,065)	—	(2,459,855)



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
<b>Impairment</b>							
Additions relating to acquisition of Business....	(29,771)	(26)	(2,446)	(1,043)	(2,917)	—	(36,203)
As at December 31, 2014 ....	(29,771)	(26)	(2,446)	(1,043)	(2,917)	—	(36,203)
Additions .....	—	—	(59)	—	—	—	(59)
Disposals.....	—	26	—	—	—	—	26
As at December 31, 2015 ....	(29,771)	—	(2,505)	(1,043)	(2,917)	—	(36,236)
Disposals.....	21,295	—	42	760	885	—	22,982
As at December 31, 2016 ....	(8,476)	—	(2,463)	(283)	(2,032)	—	(13,254)
<b>Net book value</b>							
As at December 31, 2014 .....	4,160,882	116,014	182,026	22,535	156,062	406,823	5,044,342
As at December 31, 2015 .....	3,867,240	104,500	217,858	7,668	150,399	434,072	4,781,737
As at December 31, 2016 .....	3,737,607	89,716	284,085	3,162	142,516	447,547	4,704,633

The carrying amount of the premises with incomplete title deeds as December 31, 2014, 2015 and 2016 was RMB 2,169.22 million, RMB 2,447.61 million and RMB 1,745.61 million, respectively. The Group 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.

The net book values of premises at the end of each of the Relevant Periods are analyzed by the remaining terms of the leases as follows:

*The Group*

	At December 31,		
	2014	2015	2016
<b>Held in mainland China</b>			
- Long-term leases (over 50 years) .....	703,227	876,518	834,007
- Medium-term leases (10 - 50 years) .....	3,370,817	2,950,386	2,896,180
- Short-term leases (less than 10 years) .....	114,348	68,045	64,745
Total .....	4,188,392	3,894,949	3,794,932

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	At December 31,		
	2014	2015	2016
Held in mainland China			
- Long term leases (over 50 years) .....	703,227	876,518	834,007
- Medium term leases (10 - 50 years) .....	3,343,307	2,922,677	2,838,855
- Short term leases (less than 10 years) .....	114,348	68,045	64,745
Total .....	<u>4,160,882</u>	<u>3,867,240</u>	<u>3,737,607</u>

The net book value of investment properties at the end of the Relevant Periods are analyzed by the remaining terms of the leases as follows:

*The Group*

	At December 31,		
	2014	2015	2016
Held in mainland China			
- Medium-term leases (10 - 50 years) .....	<u>116,014</u>	<u>104,500</u>	<u>89,716</u>

*The Bank*

	At December 31,		
	2014	2015	2016
Held in mainland China			
- Medium-term leases (10 - 50 years) .....	<u>116,014</u>	<u>104,500</u>	<u>89,716</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**27 Deferred tax assets**

*(a) Analyzed by nature*

*The Group*

	At December 31,					
	2014		2015		2016	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):						
Allowance for impairment losses.....	4,477,840	1,119,460	5,406,372	1,351,593	6,028,684	1,507,171
Staff cost payable .....	539,116	134,779	918,972	229,743	1,035,244	258,811
Supplemental retirement benefits.....	200,748	50,187	174,856	43,714	148,544	37,136
Fair value changes of financial assets.....	(13,364)	(3,341)	(169,872)	(42,468)	833,160	208,290
Deferred income .....	231,828	57,957	227,068	56,767	220,280	55,070
Assets appraisal and related depreciation .....	(2,667,608)	(666,902)	(2,488,232)	(622,058)	(2,228,136)	(557,034)
Others.....	85,620	21,405	43,320	10,830	80,520	20,130
Net balances .....	<u>2,854,180</u>	<u>713,545</u>	<u>4,112,484</u>	<u>1,028,121</u>	<u>6,118,296</u>	<u>1,529,574</u>

*The Bank*

	At December 31,					
	2014		2015		2016	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):						
Allowance for impairment losses.....	4,406,288	1,101,572	5,294,728	1,323,682	5,912,464	1,478,116
Staff cost payable .....	538,668	134,667	918,932	229,733	1,027,984	256,996
Supplemental retirement benefits.....	200,748	50,187	174,856	43,714	148,544	37,136
Fair value changes of financial assets.....	(13,364)	(3,341)	(169,872)	(42,468)	833,160	208,290
Deferred income .....	231,828	57,957	227,068	56,767	220,280	55,070
Assets appraisal and related depreciation .....	(2,667,608)	(666,902)	(2,488,232)	(622,058)	(2,228,136)	(557,034)
Others.....	84,512	21,128	42,688	10,672	75,180	18,795
Net balances .....	<u>2,781,072</u>	<u>695,268</u>	<u>4,000,168</u>	<u>1,000,042</u>	<u>5,989,476</u>	<u>1,497,369</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**(b) Movements of deferred tax**

*The Group*

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
Additions relating to acquisition of Business .....	1,112,854	132,708	50,195	(2,920)	58,262	(668,373)	19,296	702,022
Recognized in profit or loss .....	6,606	2,071	(8)	(1,760)	(305)	1,471	2,109	10,184
Recognized in other comprehensive income .....	—	—	—	1,339	—	—	—	1,339
December 31, 2014 .....	1,119,460	134,779	50,187	(3,341)	57,957	(666,902)	21,405	713,545
Obtain the control of subsidiaries.....	2,339	—	—	—	—	—	—	2,339
Recognized in profit or loss .....	229,794	94,964	(6,473)	(35,594)	(1,190)	44,844	(10,575)	315,770
Recognized in other comprehensive income .....	—	—	—	(3,533)	—	—	—	(3,533)
December 31, 2015 .....	1,351,593	229,743	43,714	(42,468)	56,767	(622,058)	10,830	1,028,121
Recognized in profit or loss .....	155,578	29,068	(6,578)	34,320	(1,697)	65,024	9,300	285,015
Recognized in other comprehensive income .....	—	—	—	216,438	—	—	—	216,438
December 31, 2016 .....	<u>1,507,171</u>	<u>258,811</u>	<u>37,136</u>	<u>208,290</u>	<u>55,070</u>	<u>(557,034)</u>	<u>20,130</u>	<u>1,529,574</u>

*The Bank*

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
Additions relating to acquisition of Business .....	1,095,086	132,596	50,195	(2,920)	58,262	(668,373)	19,019	683,865
Recognized in profit or loss .....	6,486	2,071	(8)	(1,760)	(305)	1,471	2,109	10,064
Recognized in other comprehensive income .....	—	—	—	1,339	—	—	—	1,339
December 31, 2014 .....	1,101,572	134,667	50,187	(3,341)	57,957	(666,902)	21,128	695,268
Recognized in profit or loss .....	222,110	95,066	(6,473)	(35,594)	(1,190)	44,844	(10,456)	308,307
Recognized in other comprehensive income .....	—	—	—	(3,533)	—	—	—	(3,533)
December 31, 2015 .....	1,323,682	229,733	43,714	(42,468)	56,767	(622,058)	10,672	1,000,042
Recognized in profit or loss .....	154,434	27,263	(6,578)	34,320	(1,697)	65,024	8,123	280,889
Recognized in other comprehensive income .....	—	—	—	216,438	—	—	—	216,438
December 31, 2016 .....	<u>1,478,116</u>	<u>256,996</u>	<u>37,136</u>	<u>208,290</u>	<u>55,070</u>	<u>(557,034)</u>	<u>18,795</u>	<u>1,497,369</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of each of the Relevant Periods. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of each of the Relevant Periods, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

**28 Goodwill**

*The Group and the Bank*

	Note	Goodwill
<b>Cost:</b>		
Addition .....	44	468,397
At December 23, 2014, December 31, 2014, 2015 and 2016 .....		468,397
<b>Accumulated impairment losses:</b>		
At December 23, 2014, December 31, 2014, 2015 and 2016 .....		—
<b>Carrying amount:</b>		
At December 23, 2014, December 31, 2014, 2015 and 2016 .....		468,397

**Impairment testing on goodwill**

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the Relevant Periods allocated to these units are as follows:

	At December 31,		
	2014	2015	2016
Corporate banking.....	309,219	309,219	309,219
Retail banking.....	97,029	97,029	97,029
Financial markets business.....	62,149	62,149	62,149
Total .....	468,397	468,397	468,397

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 15.56%, 13.08% and 13.00% as at December 31, 2014, 2015 and 2016 respectively. Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the Relevant Periods, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.

**29 Other assets**

*The Group*

	Note	At December 31,		
		2014	2015	2016
Interests receivable .....	29(a)	736,000	1,665,938	2,514,570
Receivables from disposal of loans .....	20(g)	—	—	1,595,120
Intangible assets .....	29(b)	698,582	706,509	1,235,603
Repossessed assets .....		742,747	747,161	758,214
Leasehold improvements .....		264,162	329,444	467,662
Other receivables .....		621,864	607,233	698,510
Total .....		<u>3,063,355</u>	<u>4,056,285</u>	<u>7,269,679</u>

*The Bank*

		At December 31,		
		2014	2015	2016
Interests receivable .....	29(a)	728,728	1,648,859	2,494,210
Receivables from disposal of loans .....	20(g)	—	—	1,571,160
Intangible assets .....	29(b)	698,536	706,336	1,234,814
Repossessed assets .....		742,747	741,166	714,624
Leasehold improvements .....		246,048	302,117	431,753
Other receivables .....		614,024	601,664	675,817
Total .....		<u>3,030,083</u>	<u>4,000,142</u>	<u>7,122,378</u>

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APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016

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(a) *Interests receivable*

*The Group*

	<u>At December 31,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Interests receivable arising from:			
Investments.....	398,975	1,118,881	1,751,362
Loans and advances to customers.....	264,730	477,780	693,721
Others.....	<u>72,295</u>	<u>69,277</u>	<u>69,487</u>
Total.....	<u><u>736,000</u></u>	<u><u>1,665,938</u></u>	<u><u>2,514,570</u></u>

*The Bank*

	<u>At December 31,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Interests receivable arising from:			
Investments.....	398,975	1,118,881	1,751,362
Loans and advances to customers.....	263,005	468,170	682,011
Others.....	<u>66,748</u>	<u>61,808</u>	<u>60,837</u>
Total.....	<u><u>728,728</u></u>	<u><u>1,648,859</u></u>	<u><u>2,494,210</u></u>

APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016

(b) *Intangible assets*

*The Group*

	Land use rights	Computer software	Total
<b>Cost</b>			
Additions relating to acquisition of Business .....	707,671	143,596	851,267
Additions .....	—	15,730	15,730
As at December 31, 2014 .....	707,671	159,326	866,997
Acquired on acquisitions of subsidiaries .....	—	102	102
Additions .....	5,604	94,629	100,233
Disposals .....	—	(423)	(423)
As at December 31, 2015 .....	713,275	253,634	966,909
Additions .....	564,198	128,413	692,611
Disposals .....	(87,427)	(3,204)	(90,631)
As at December 31, 2016 .....	1,190,046	378,843	1,568,889
<b>Accumulated amortization</b>			
Additions relating to acquisition of Business .....	(49,618)	(106,286)	(155,904)
Additions .....	(379)	(1,617)	(1,996)
As at December 31, 2014 .....	(49,997)	(107,903)	(157,900)
Acquired on acquisitions of subsidiaries .....	—	(10)	(10)
Additions .....	(27,650)	(64,703)	(92,353)
Disposals .....	—	378	378
As at December 31, 2015 .....	(77,647)	(172,238)	(249,885)
Additions .....	(27,722)	(56,319)	(84,041)
Disposals .....	9,299	1,856	11,155
As at December 31, 2016 .....	(96,070)	(226,701)	(322,771)
<b>Impairment</b>			
Additions relating to acquisition of Business .....	(9,097)	(1,418)	(10,515)
As at December 31, 2014, 2015 and 2016 .....	(9,097)	(1,418)	(10,515)
<b>Net book value</b>			
As at December 31, 2014 .....	648,577	50,005	698,582
As at December 31, 2015 .....	626,531	79,978	706,509
As at December 31, 2016 .....	1,084,879	150,724	1,235,603



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	<b>Land use rights</b>	<b>Computer software</b>	<b>Total</b>
<b>Cost</b>			
Additions relating to acquisition of Business .....	707,671	143,529	851,200
Additions .....	—	15,730	15,730
As at December 31, 2014 .....	707,671	159,259	866,930
Additions .....	5,604	94,578	100,182
Disposals .....	—	(423)	(423)
As at December 31, 2015 .....	713,275	253,414	966,689
Additions .....	564,198	127,755	691,953
Disposals .....	(87,427)	(3,204)	(90,631)
As at December 31, 2016 .....	1,190,046	377,965	1,568,011
<b>Accumulated amortisation</b>			
Additions relating to acquisition of Business .....	(49,618)	(106,265)	(155,883)
Additions .....	(379)	(1,617)	(1,996)
As at December 31, 2014 .....	(49,997)	(107,882)	(157,879)
Additions .....	(27,650)	(64,687)	(92,337)
Disposals .....	—	378	378
As at December 31, 2015 .....	(77,647)	(172,191)	(249,838)
Additions .....	(27,722)	(56,277)	(83,999)
Disposals .....	9,299	1,856	11,155
As at December 31, 2016 .....	(96,070)	(226,612)	(322,682)
<b>Impairment</b>			
Additions relating to acquisition of Business .....	(9,097)	(1,418)	(10,515)
As at December 31, 2014, 2015 and 2016.....	(9,097)	(1,418)	(10,515)
<b>Net book value</b>			
As at December 31, 2014 .....	648,577	49,959	698,536
As at December 31, 2015 .....	626,531	79,805	706,336
As at December 31, 2016 .....	1,084,879	149,935	1,234,814

APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016

30 Pledged assets

(a) Assets pledged as collateral

	Note	At December 31,		
		2014	2015	2016
For repurchase agreements				
- Discounted bills .....		—	6,288,813	823,400
- Financial assets at fair value through profit or loss .....	18	150,000	7,188,102	3,626,089
- Available-for-sale financial assets .....	21	620,000	3,609,749	17,090,621
- Held-to-maturity investments .....	22	1,410,000	7,865,020	6,073,247
Total .....		<u>2,180,000</u>	<u>24,951,684</u>	<u>27,613,357</u>

Financial assets pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at the end of each of the Relevant Periods, the carrying amounts of the received pledged assets is RMB 9,358.78 million, RMB 24,615.25 million and RMB 6,583.63 million.

31 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	At December 31,		
	2014	2015	2016
Deposits in mainland China			
- Banks .....	2,957,684	18,578,960	36,401,414
- Other financial institutions .....	2,777,771	10,806,813	8,553,360
Total .....	<u>5,735,455</u>	<u>29,385,773</u>	<u>44,954,774</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	<b>At December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Deposits in mainland China			
- Banks.....	3,041,799	18,876,014	36,964,652
- Other financial institutions.....	<u>2,762,575</u>	<u>10,576,474</u>	<u>9,052,244</u>
Total .....	<u>5,804,374</u>	<u>29,452,488</u>	<u>46,016,896</u>

**32 Placements from banks and other financial institutions**

*The Group and the Bank*

	<b>At December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Deposits in mainland China			
- Banks.....	<u>—</u>	<u>—</u>	<u>10,400,000</u>

**33 Financial assets sold under repurchase agreements**

*The Group and the Bank*

(a) *Analyzed by type and location of counterparty*

	<b>At December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
In mainland China			
- Banks.....	1,547,200	21,001,206	26,207,364
- Other financial institutions.....	<u>579,000</u>	<u>3,936,399</u>	<u>1,373,203</u>
Total .....	<u>2,126,200</u>	<u>24,937,605</u>	<u>27,580,567</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(b) *Analyzed by collateral*

	At December 31,		
	2014	2015	2016
Debt securities .....	2,126,200	18,656,050	26,757,633
Discounted bills .....	—	6,281,555	822,934
Total .....	<u>2,126,200</u>	<u>24,937,605</u>	<u>27,580,567</u>

**34 Deposits from customers**

*The Group*

	At December 31,		
	2014	2015	2016
Demand deposits			
- Corporate customers.....	48,208,068	63,862,894	87,606,551
- Individual customers .....	21,954,587	23,277,716	31,941,420
Sub-total .....	<u>70,162,655</u>	<u>87,140,610</u>	<u>119,547,971</u>
Time deposits .....			
- Corporate customers.....	12,774,619	19,520,081	29,034,685
- Individual customers .....	59,779,022	67,730,709	71,549,624
Sub-total .....	<u>72,553,641</u>	<u>87,250,790</u>	<u>100,584,309</u>
Pledged deposits			
- Acceptances .....	19,585,279	28,402,339	19,988,120
- Letters of credit and guarantees .....	1,749,633	1,995,912	4,396,834
- Others .....	138,803	283,028	463,984
Sub-total .....	<u>21,473,715</u>	<u>30,681,279</u>	<u>24,848,938</u>
Inward and outward remittances.....	<u>405,821</u>	<u>297,675</u>	<u>371,536</u>
Total .....	<u>164,595,832</u>	<u>205,370,354</u>	<u>245,352,754</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	At December 31,		
	2014	2015	2016
Demand deposits			
- Corporate customers.....	46,953,960	62,494,111	86,089,260
- Individual customers .....	21,553,771	22,716,662	31,020,550
Sub-total .....	<u>68,507,731</u>	<u>85,210,773</u>	<u>117,109,810</u>
Time deposits			
- Corporate customers.....	12,598,781	19,297,329	28,807,950
- Individual customers .....	58,886,816	66,201,773	69,135,290
Sub-total .....	<u>71,485,597</u>	<u>85,499,102</u>	<u>97,943,240</u>
Pledged deposits			
- Acceptances .....	19,585,279	28,402,339	19,988,120
- Letters of credit and guarantees .....	1,654,166	1,901,178	4,261,898
- Others .....	138,803	283,028	463,984
Sub-total .....	<u>21,378,248</u>	<u>30,586,545</u>	<u>24,714,002</u>
Inward and outward remittances.....	<u>405,717</u>	<u>297,675</u>	<u>371,438</u>
Total .....	<u><u>161,777,293</u></u>	<u><u>201,594,095</u></u>	<u><u>240,138,490</u></u>

**35 Debt securities issued**

*The Group and the Bank*

	Note	At December 31,		
		2014	2015	2016
Interbank deposits issued .....	35(a)	—	2,979,045	57,387,758
Total .....		<u>—</u>	<u>2,979,045</u>	<u>57,387,758</u>

*Note:*

- (a) In 2015, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 3,000.00 million and duration between 3-6 months. The coupon rates ranged from 3.3% to 3.4% per annum.
- In 2016, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 147,670.00 million and duration between 3-12 months. The coupon rates ranged from 2.5% to 5.3% per annum.
- As at December 31, 2015 and 2016, the fair value of interbank deposits issued were RMB 2,975.43 million and RMB 57,244.37 million respectively.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**36 Other liabilities**

*The Group*

	Note	At December 31,		
		2014	2015	2016
Interests payable .....	36(a)	2,242,923	2,434,075	2,406,441
Payment and collection clearance accounts...		1,237,325	2,470,262	1,759,577
Accrued staff cost .....	36(b)	794,082	1,385,743	1,601,688
Capital contribution from shareholders received in advance .....		316,368	196,429	—
Other tax payable.....		233,617	202,118	112,420
Dividend payable .....		112,166	83,507	229,015
Litigations and disputes provision.....		29,092	25,966	25,966
Other payable .....		348,090	631,690	496,031
Total .....		<u>5,313,663</u>	<u>7,429,790</u>	<u>6,631,138</u>

*The Bank*

	Note	At December 31,		
		2014	2015	2016
Interests payable .....	36(a)	2,220,976	2,402,354	2,372,072
Payment and collection clearance accounts...		1,237,325	2,469,388	1,759,577
Accrued staff cost .....	36(b)	791,458	1,381,049	1,587,911
Other tax payable.....		230,038	197,761	107,566
Capital contribution from shareholders received in advance .....		150,000	—	—
Dividend payable .....		108,166	77,507	229,015
Litigations and disputes provision.....		29,092	25,966	25,966
Other payable .....		335,348	623,577	449,213
Total .....		<u>5,102,403</u>	<u>7,177,602</u>	<u>6,531,320</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(a) *Interests payable*

*The Group*

	At December 31,		
	2014	2015	2016
Interests payable arising from:			
Deposits from customers .....	2,226,651	2,339,233	2,229,126
Deposits from banks and other financial institutions.....	10,416	89,540	154,399
Repurchase agreements .....	5,211	2,443	22,132
Others .....	645	2,859	784
Total .....	<u>2,242,923</u>	<u>2,434,075</u>	<u>2,406,441</u>

*The Bank*

	At December 31,		
	2014	2015	2016
Interests payable arising from:			
Deposits from customers .....	2,204,898	2,311,938	2,200,507
Deposits from banks and other financial institutions.....	10,345	87,453	149,433
Repurchase agreements .....	5,211	2,443	22,132
Others .....	522	520	—
Total .....	<u>2,220,976</u>	<u>2,402,354</u>	<u>2,372,072</u>

(b) *Accrued staff cost*

*The Group*

	Note	At December 31,		
		2014	2015	2016
Salary, bonuses and allowances payable .....		550,857	1,110,103	1,335,269
Social insurance payable .....		29,174	37,737	44,563
Housing allowances payable.....		2,331	1,267	1,437
Labor union fee, staff and workers' education fee .....		17,781	60,080	70,720
Supplementary retirement.....				
benefits payable .....	(1)	<u>193,939</u>	<u>176,556</u>	<u>149,699</u>
Total .....		<u>794,082</u>	<u>1,385,743</u>	<u>1,601,688</u>

**APPENDIX IB      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	Note	At December 31,		
		2014	2015	2016
Salary, bonuses and allowances payable .....		548,540	1,106,716	1,322,635
Social insurance payable .....		29,163	37,078	44,224
Housing allowances payable.....		2,314	1,120	1,416
Labor union fee, staff and workers' education fee .....		17,502	59,579	69,937
Supplementary retirement benefits payable...	(1)	193,939	176,556	149,699
Total .....		<u>791,458</u>	<u>1,381,049</u>	<u>1,587,911</u>

(1) *Supplementary retirement benefits*

The supplementary retirement benefits of the Bank include early retirement plan and supplementary retirement plan. The early retirement benefits is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Bank's eligible employees.

(i) The balances of supplementary retirement benefits of the Group are as follows:

	At December 31,		
	2014	2015	2016
Present value of early retirement plan .....	187,932	169,667	143,361
Supplementary retirement plan .....	6,007	6,889	6,338
Total.....	<u>193,939</u>	<u>176,556</u>	<u>149,699</u>

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	At December 31,		
	2014	2015	2016
As at December 23 /January 1 .....	193,971	193,939	176,556
Benefits paid during the period .....	—	(21,747)	(30,929)
Defined benefit cost recognized in profit or loss .....	(32)	3,553	4,617
Defined benefit cost recognized in other comprehensive income.....	—	811	(545)
As at December 31 .....	<u>193,939</u>	<u>176,556</u>	<u>149,699</u>

Interest cost was recognized in staff costs, see Note 9.



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	At December 31,		
	2014	2015	2016
Discount rate.....	3.50%	2.75%	3.00%
Retired age			
- Male.....	60	60	60
- Female.....	55	55	55
Annual increase rate of internal salary.....	4.50%	4.50%	4.50%

Supplementary retirement plan	At December 31,		
	2014	2015	2016
Discount rate.....	4.00%	3.25%	3.75%
Retired age			
- Male.....	60	60	60
- Female.....	55	55	55

(iv) Sensitivity analysis:

Early retirement plan	At December 31, 2014		At December 31, 2015		At December 31, 2016	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (1% movement).....	(8,095)	8,829	(7,308)	7,971	(6,175)	6,735

Supplementary retirement plan	At December 31, 2014		At December 31, 2015		At December 31, 2016	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (1% movement).....	(1,033)	1,101	(1,185)	1,263	(1,090)	1,162

Although the analysis does not take account of the full distribution of cash flows expected under the supplementary retirement benefits, it does provide an approximation of the sensitivity of the assumptions shown.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**37 Share capital**

Share capital of the Group as at December 31, 2014, 2015 and 2016 represented share capital of the Bank, which is fully paid.

	Note	Number of shares	Amount
As at December 23, 2014.....		—	—
Acquisition of Business .....	37(a)	11,624,874	11,624,874
Capital contribution by equity shareholders.....	37(a)	<u>3,795,667</u>	<u>3,795,667</u>
As at December 31, 2014.....		15,420,541	15,420,541
Capital contribution by equity shareholders.....	37(b)	<u>1,204,459</u>	<u>1,204,459</u>
As at December 31, 2015 and 2016.....		<u><u>16,625,000</u></u>	<u><u>16,625,000</u></u>

Notes:

- (a) As set out in Note 1 and Note 44, the Bank was incorporated on December 23, 2014 and the business of the Predecessor Entities was acquired and transferred to the Bank on the same date. Registered capital of the Bank is RMB 15,420.54 million divided into 15,420.54 million of shares at per value of RMB 1 each. Registered capital has been fully issued which comprised 11,624.87 million shares issued to acquire the Business from the Predecessor Entities and 3,795.67 million shares subscribed by the promoters of the Bank. The capital contribution was verified by BDO China Shu Lun Pan Certified Public Accountants LLP.
- (b) On December 28, 2015, the Bank issued 1,204.46 million new shares with a per value of RMB 1 at a subscription price of RMB 1.93 per share to several enterprises under a private placement. The capital contribution was verified by BDO China Shu Lun Pan Certified Public Accountants LLP.

**38 Reserves**

(a) *Capital reserve*

*The Group*

	Note	At December 31,		
		2014	2015	2016
Share premium .....		9,720,722	10,851,269	10,851,269
Changes in fair value recognized in other comprehensive income .....	(i)	63,846	74,444	(574,870)
Changes on remeasurement of defined benefit liabilities .....	(ii)	(890)	(1,701)	(1,156)
Changes in ownership in subsidiaries without changes in control.....		<u>(4,372)</u>	<u>(4,372)</u>	<u>(777)</u>
Total .....		<u><u>9,779,306</u></u>	<u><u>10,919,640</u></u>	<u><u>10,274,466</u></u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Bank*

	Note	At December 31,		
		2014	2015	2016
Share premium.....		9,720,722	10,851,269	10,851,269
Changes in fair value recognised in other comprehensive income.....	(i)	63,846	74,444	(574,870)
Changes on remeasurement of defined benefit liabilities .....	(ii)	(890)	(1,701)	(1,156)
Total .....		<u>9,783,678</u>	<u>10,924,012</u>	<u>10,275,243</u>

(i) *Investment revaluation reserve*

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
As at December 23/January 1.....	67,862	63,846	74,444
Changes in fair value recognised in other comprehensive income.....	(5,355)	14,162	(895,372)
Transfer to profit or loss upon disposal.....	—	(31)	29,620
Less: deferred income tax .....	<u>1,339</u>	<u>(3,533)</u>	<u>216,438</u>
Total .....	<u>63,846</u>	<u>74,444</u>	<u>(574,870)</u>

(ii) *(Deficit) / Surplus on remeasurement of net defined benefit liability*

(Deficit) / Surplus on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
As at December 23/January 1.....	(890)	(890)	(1,701)
Changes in fair value recognised in other comprehensive income.....	<u>—</u>	<u>(811)</u>	<u>545</u>
Total .....	<u>(890)</u>	<u>(1,701)</u>	<u>(1,156)</u>

(b) *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 of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank appropriated an amount of nil, RMB 297.72 million, and RMB 334.72 million to the statutory surplus reserve fund for each of the Relevant Periods, respectively.

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) *General reserve*

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, 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 on an annual basis. The balance of the general reserve amounted to RMB 1,700.30 million, RMB 2,209.15 million and RMB 5,134.78 million as at December 31, 2014, 2015 and 2016 respectively.

39 **Retained profits**

(a) *Appropriation of profits*

In accordance with the resolution of the Bank's 2015 Annual General Meeting held on April 26, 2016, the shareholders approved the profit distribution plan for the year ended December 31, 2015:

- Appropriation of statutory surplus reserve amounted to RMB 297.72 million.
- Appropriation of general reserve amounted to RMB 508.85 million; and
- Declaration of cash dividend of RMB 0.55 per ten shares before tax and in an aggregation amount of RMB 914.38 million to all existing shareholders.

In accordance with the resolution of the Bank's 2016 Annual General Meeting held on March 12, 2017, the shareholders approved the profit distribution plan for the year ended December 31, 2016:

- Appropriation of statutory surplus reserve amounted to RMB 334.72 million; and
- Appropriation of general reserve amounted to RMB 2,925.63 million.

The surplus reserve at the end of each of the Relevant Periods represented statutory surplus reserve fund.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(b) *As at December 31, 2014, 2015 and 2016, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of nil, RMB 7.00 million and RMB 16.86 million to surplus reserve made by subsidiaries.*

(c) *Movements in components of equity*

Details of the changes in the Bank's individual components of equity for the Relevant Periods are set out below.

	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at December 23, 2014.....	—	—	—	—	—	—
Changes in equity for the period:						
Shares issued for acquisition of						
Business .....	11,624,874	7,510,294	244,627	1,670,192	498,797	21,548,784
Capital contributed by equity shareholders.....	3,795,667	2,277,400	—	—	—	6,073,067
Subtotal .....	15,420,541	9,787,694	244,627	1,670,192	498,797	27,621,851
Net loss for the period.....	—	—	—	—	(32,291)	(32,291)
Other comprehensive income.....	—	(4,016)	—	—	—	(4,016)
Total comprehensive income for the period.....	—	(4,016)	—	—	(32,291)	(36,307)
Balance at December 31, 2014.....	15,420,541	9,783,678	244,627	1,670,192	466,506	27,585,544
	Share Capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at January 1, 2015 .....	15,420,541	9,783,678	244,627	1,670,192	466,506	27,585,544
Changes in equity for the year:						
Net profit for the year .....	—	—	—	—	2,977,184	2,977,184
Other comprehensive income.....	—	9,787	—	—	—	9,787
Total comprehensive income for the year .....	—	9,787	—	—	2,977,184	2,986,971
Capital contributed by equity shareholders.....	1,204,459	1,120,147	—	—	—	2,324,606
Others.....	—	10,400	—	—	—	10,400
Appropriation to surplus reserve .....	—	—	297,719	—	(297,719)	—
Appropriation to general reserve .....	—	—	—	501,845	(501,845)	—
Balance at December 31, 2015.....	16,625,000	10,924,012	542,346	2,172,037	2,644,126	32,907,521

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	<u>Share Capital</u>	<u>Capital reserve</u>	<u>Surplus reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2016 .....	16,625,000	10,924,012	542,346	2,172,037	2,644,126	32,907,521
Changes in equity for the year:						
Net profit for the year .....	—	—	—	—	3,347,173	3,347,173
Other comprehensive income.....	—	(648,769)	—	—	—	(648,769)
Total comprehensive income .....	—	(648,769)	—	—	3,347,173	2,698,404
Appropriation to surplus reserve .....	—	—	334,717	—	(334,717)	—
Appropriation to general reserve .....	—	—	—	2,908,762	(2,908,762)	—
Appropriation to shareholders .....	—	—	—	—	(914,376)	(914,376)
Balance at December 31, 2016.....	<u>16,625,000</u>	<u>10,275,243</u>	<u>877,063</u>	<u>5,080,799</u>	<u>1,833,444</u>	<u>34,691,549</u>

**40 Involvement with unconsolidated structured entities**

**(a) Structured entities sponsored by third party institutions in which the Group holds an interest**

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statements of financial position in which relevant assets are recognized as at December 31, 2014, 2015 and 2016:

	<u>At December 31, 2014</u>	
	<u>Carrying amount</u>	<u>Maximum exposure</u>
Available-for-sale financial assets .....	2,110,348	2,110,348
Debt securities classified as receivables .....	<u>16,792,457</u>	<u>16,792,457</u>
Total .....	<u>18,902,805</u>	<u>18,902,805</u>

	<u>At December 31, 2015</u>	
	<u>Carrying amount</u>	<u>Maximum exposure</u>
Available-for-sale financial assets .....	19,496,833	19,496,833
Debt securities classified as receivables .....	<u>33,881,710</u>	<u>33,881,710</u>
Total .....	<u>53,378,543</u>	<u>53,378,543</u>

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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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	<u>At December 31, 2016</u>	
	<u>Carrying amount</u>	<u>Maximum exposure</u>
Available-for-sale financial assets .....	49,398,702	49,398,702
Debt securities classified as receivables .....	58,678,326	58,678,326
Total .....	<u>108,077,028</u>	<u>108,077,028</u>

As at December 31, 2014, 2015 and 2016, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

**(b) *Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:***

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at December 31, 2014, 2015 and 2016, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at December 31, 2014, 2015, and 2016, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are RMB 494.56 million, RMB 11,401.53 million and RMB 21,956.22 million, respectively.

**(c) *Unconsolidated structure entities sponsored by the Group during the years which the Group does not consolidate but have an interest in as at December 31, 2014, 2015 and 2016:***

For the period from December 23, 2014 to December 31, 2014 and the year ended December 31, 2015 and 2016, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after December 23 or January 1, but matured before December 31 amounted to nil, RMB 4,528.25 million, and RMB 38,031.23 million, respectively.

**41 Capital management**

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

The Group's capital adequacy ratios as at December 31, 2014, 2015 and 2016 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

*The Group*

	At December 31,		
	2014	2015	2016
Total core tier-one capital			
- Share capital .....	15,420,541	16,625,000	16,625,000
- Qualifying portion of capital reserve .....	9,779,306	10,919,640	10,274,466
- Surplus reserve .....	244,627	542,346	877,063
- General reserve .....	1,700,303	2,209,150	5,134,776
- Retained earnings .....	464,086	2,648,920	1,807,859
- Qualifying portions of non-controlling interests .....	287,134	287,760	385,683
Core tier-one capital deductions			
- Goodwill .....	(468,397)	(468,397)	(468,397)
- Other intangible assets other than land use rights .....	(140,012)	(70,881)	(141,628)
Net core tier-one capital .....	27,287,588	32,693,538	34,494,822
Other tier-one capital .....	6,104	13,148	39,629
Net tier-one capital .....	27,293,692	32,706,686	34,534,451
Tier-two capital			
- Surplus provision for loan impairment .....	2,517,222	2,994,202	3,279,105
- Qualifying portions of non-controlling interests .....	23,405	37,224	153,751
Net capital base .....	29,834,319	35,738,112	37,967,307
Total risk weighted assets .....	160,671,479	221,391,327	307,001,851
Core tier-one capital adequacy ratio .....	16.98%	14.77%	11.24%
Tier-one capital adequacy ratio .....	16.99%	14.77%	11.25%
Capital adequacy ratio .....	18.57%	16.14%	12.37%

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**42 Notes to the consolidated cash flow statements**

**(a) Net increase in cash and cash equivalents**

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Cash and cash equivalents as at December 31 .....	34,920,312	40,807,410	43,741,320
Less: Cash and cash equivalents as at December 23 / January 1 .....	34,580,079	34,920,312	40,807,410
Net increase in cash and cash equivalents .....	<u>340,233</u>	<u>5,887,098</u>	<u>2,933,910</u>

**(b) Cash and cash equivalents**

	At December 31,		
	2014	2015	2016
Cash on hand .....	1,358,570	1,253,824	1,292,479
Deposits with the central bank .....	19,855,411	13,021,045	15,394,722
Deposits with banks and other financial institutions .....	5,159,629	4,044,386	12,780,492
Financial assets held under resale agreements .....	8,546,702	22,488,155	6,573,627
Placement with banks and other financial institutions ....	—	—	7,700,000
Total .....	<u>34,920,312</u>	<u>40,807,410</u>	<u>43,741,320</u>

**43 Related party relationships and transactions**

**(a) Relationship of related parties:**

**(i) Major shareholders**

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

Shareholding in the Bank:

	At December 31,		
	2014	2015	2016
Henan Investment Group Co., Ltd. ....	9.73%	9.02%	9.02%
Henan Energy and Chemical Engineering Group Co., Ltd. (*).....	9.27%	8.59%	8.19%
Yongcheng Coal and Electricity Holdings Group Co., Ltd. ....	8.00%	7.42%	7.42%
Henan Shengrun Holdings Co., Ltd. ....	3.24%	4.53%	4.53%

\* The interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Kaifeng Tieta Rubber (Group) Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., Henan Guolong Mineral Construction Co., Ltd., and Henan Yinge Industry Investment Co., Ltd..

(ii) *Subsidiaries of the Bank*

The detailed information of the Bank's subsidiaries is set out in Note 25.

(iii) *Associates of the Bank*

The detailed information of the Bank's associates is set out in Note 24.

(iv) *Other related parties*

Other related parties can be individuals or enterprises, which include: members of the board of directors 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 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 43 (a) or their controlling shareholders.

(b) *Related party transactions and balances:*

(i) *Transactions between the Bank and major shareholders:*

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Transactions during the period / year:			
Interest income .....	2	3,786	93,215
Interest expense .....	9	15,749	4,428



**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

(iv) *Transactions between the Bank and other related parties:*

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Transactions during the period / year:			
Interest income .....	138	50,562	109,768
Interest expense .....	45	40,967	35,431
Operating expense.....	—	449	7,233
<b>At December 31,</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Balances at end of the period / year:			
Loans and advances to customers.....	95,500	2,052,096	1,722,947
Debt securities classified as receivables .....	—	190,000	1,520,000
Interests receivable .....	169	3,778	4,600
Deposits from customers .....	170,771	1,623,510	960,781
Interests payable .....	266	12,342	9,027
Deposits from banks and other financial institutions .....	—	200,201	195,666

(c) **Key management personnel**

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) *Transactions between the Bank and key management personnel*

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Transactions during the period / year:			
Interest income .....	1	229	753
Interest expense .....	—	28	34

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	At December 31,		
	2014	2015	2016
Balances at end of the period / year:			
Loans and advances to customers.....	500	13,096	17,947
Interests receivable .....	1	19	26
Deposits from customers .....	598	3,986	10,686
Interests payable .....	—	1	3

(ii) *Key management personnel compensation*

The aggregate compensation of key management personnel is listed as follows:

	Period from December 23, 2014 to December 31, 2014	Years ended December 31,	
		2015	2016
Salaries and other emoluments .....	104	9,646	10,494
Discretionary bonuses .....	77	26,375	29,767
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.....	23	887	1,509
Total .....	<u>204</u>	<u>36,908</u>	<u>41,770</u>

(d) *Loans and advances to directors, supervisors and officers*

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	At December 31,		
	2014	2015	2016
Aggregate amount of relevant loans outstanding at the end of the Relevant Periods.....	<u>500</u>	<u>13,096</u>	<u>17,947</u>
Maximum aggregate amount of relevant loans outstanding during the Relevant Periods .....	<u>500</u>	<u>13,120</u>	<u>17,947</u>

There were no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at December 31, 2014, 2015 and 2016.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

**44 Acquisition of business**

On December 23, 2014, the assets and liabilities of the Predecessor Entities were acquired and consequently the Business of the Predecessor Entities was transferred to the Bank. The fair value of the consideration amounted to approximately RMB 21,974.47 million is with reference to the fair value of the Business, which is measured by a qualified independent valuer. The transaction has been accounted for using the acquisition method under IFRS 3 *Business Combinations*.

**(a) Fair value of identifiable assets acquired and liabilities assumed**

	<b>At December 23, 2014</b>
Cash and deposits with the central bank.....	35,582,404
Deposits with banks and other financial institutions.....	7,362,037
Placements with banks and other financial institutions.....	1,692
Financial assets at fair value through profit or loss.....	2,889,079
Financial assets held under resale agreements.....	10,165,206
Loans and advances to customers.....	105,007,244
Available-for-sale financial assets.....	5,993,888
Held-to-maturity investments.....	11,963,320
Debt securities classified as receivables.....	16,071,882
Interests in associates.....	54,902
Property and equipment.....	4,965,878
Deferred tax assets.....	570,058
Other assets.....	3,599,909
Borrowing from the central bank.....	(1,436,815)
Deposits from banks and other financial institutions.....	(5,721,577)
Financial assets sold under repurchase agreements.....	(2,458,000)
Deposits from customers.....	(168,704,301)
Income tax payable.....	(409,503)
Other liabilities.....	(3,991,224)
Total identifiable net assets acquired.....	<u>21,506,079</u>

**(b) Goodwill**

Goodwill arising from the acquisition has been recognised as follows.

	<b>Note</b>	<b>At December 23, 2014</b>
Consideration transferred.....		21,974,476
Fair value of the identifiable net assets acquired.....	44(a)	21,506,079
Goodwill.....	28	<u>468,397</u>

The goodwill is attributable mainly to the skills of the Predecessor Entities' work force and the synergies expected to be achieved from integrating the Predecessor Entities. None of the goodwill recognised is expected to be deductible for tax purposes.

As of December 23, 2014, the Group appropriated surplus reserve, general reserve and retained earnings by RMB 244.63 million, RMB 1,700.30 million and RMB 494.97 million, respectively, from the consideration transferred in accordance with the relevant agreements entered into by and between the Predecessor Entities.

#### 45 Segment reporting

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

##### *Corporate banking*

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

##### *Retail banking*

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

##### *Financial markets business*

This segment covers the Group's financial markets business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial markets business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

##### *Others*

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

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income / expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income / expense".



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Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the Relevant Periods to acquire property and equipment, intangible assets and other long-term assets.

*The Group*

	Year ended December 31, 2015				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income .....	7,999,521	204,252	2,344,333	—	10,548,106
Internal net interest (expense) / income.....	(1,478,326)	2,296,062	(817,736)	—	—
Net interest income .....	6,521,195	2,500,314	1,526,597	—	10,548,106
Net fee and commission income .....	101,635	33,246	—	—	134,881
Net trading gains.....	—	—	142,378	—	142,378
Net losses arising from investment securities ....	—	—	(649)	—	(649)
Other operating income .....	2,920	4,828	258	217,568	225,574
Operating income .....	6,625,750	2,538,388	1,668,584	217,568	11,050,290
Operating expenses.....	(1,700,162)	(1,996,087)	(502,740)	(921,358)	(5,120,347)
Impairment (losses)/reversals on assets.....	(1,328,310)	(308,799)	(255,418)	5,405	(1,887,122)
Profit / (loss) before tax.....	<u>3,597,278</u>	<u>233,502</u>	<u>910,426</u>	<u>(698,385)</u>	<u>4,042,821</u>
Segment assets .....	146,892,439	48,292,692	105,856,135	3,821,307	304,862,573
Deferred tax assets .....	—	—	—	1,028,121	1,028,121
Total assets .....	<u>146,892,439</u>	<u>48,292,692</u>	<u>105,856,135</u>	<u>4,849,428</u>	<u>305,890,694</u>
Segment liabilities.....	115,541,408	93,792,934	59,524,716	3,613,612	272,472,670
Total liabilities .....	<u>115,541,408</u>	<u>93,792,934</u>	<u>59,524,716</u>	<u>3,613,612</u>	<u>272,472,670</u>
Other segment information					
- Depreciation and amortization.....	<u>183,760</u>	<u>303,862</u>	<u>16,225</u>	<u>133,966</u>	<u>637,813</u>
- Capital expenditure.....	<u>208,170</u>	<u>344,228</u>	<u>18,380</u>	<u>151,761</u>	<u>722,539</u>

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*The Group*

	Year ended December 31, 2016				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income .....	8,497,353	636,981	2,068,993	—	11,203,327
Internal net interest (expense)/income .....	(1,616,766)	2,051,422	(434,656)	—	—
Net interest income .....	6,880,587	2,688,403	1,634,337	—	11,203,327
Net fee and commission income .....	372,275	76,785	—	—	449,060
Net trading (losses)/gain.....	—	—	(79,959)	8,242	(71,717)
Net gains arising from investment securities .....	—	—	9,088	—	9,088
Other operating income .....	8,248	2,849	145	202,738	213,980
Operating income .....	7,261,110	2,768,037	1,563,611	210,980	11,803,738
Operating expenses.....	(1,551,286)	(2,184,438)	(339,488)	(1,061,163)	(5,136,375)
Impairment losses on assets.....	(1,364,838)	(633,463)	(229,141)	(19,313)	(2,246,755)
Profit / (loss) before tax .....	4,344,986	(49,864)	994,982	(869,496)	4,420,608
Segment assets .....	178,167,940	66,027,463	181,576,549	5,769,913	431,541,865
Deferred tax assets .....	—	—	—	1,529,574	1,529,574
Total assets .....	<u>178,167,940</u>	<u>66,027,463</u>	<u>181,576,549</u>	<u>7,299,487</u>	<u>433,071,439</u>
Segment liabilities .....	<u>153,272,387</u>	<u>106,492,255</u>	<u>134,988,907</u>	<u>2,819,251</u>	<u>397,572,800</u>
Total liabilities .....	<u>153,272,387</u>	<u>106,492,255</u>	<u>134,988,907</u>	<u>2,819,251</u>	<u>397,572,800</u>
Other segment information					
- Depreciation and amortization.....	<u>188,576</u>	<u>318,402</u>	<u>16,213</u>	<u>148,013</u>	<u>671,204</u>
- Capital expenditure.....	<u>379,174</u>	<u>640,217</u>	<u>32,600</u>	<u>297,613</u>	<u>1,349,604</u>

**46 Risk management**

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) *Credit risk*

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

*Credit business*

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal: .....	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention: .....	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard: .....	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful: .....	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collaterals 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.

*Financial markets business*

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the Relevant Periods.

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(ii) Financial assets analyzed by credit quality are summarized as follows:

*The Group*

	At December 31, 2014			
	Loans and advances	Deposits / Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments  (*)
<i>Impaired</i>				
Individually assessed gross amount.....	1,873,983	21,396	—	400,000
Provision for impairment losses.....	(1,117,511)	(19,704)	—	(110,960)
Sub-total.....	756,472	1,692	—	289,040
Collectively assessed gross amount.....	261,254	—	—	—
Provision for impairment losses.....	(165,621)	—	—	—
Sub-total.....	95,633	—	—	—
<i>Overdue but not Impaired</i>				
Less than three months (inclusive).....	2,451,094	—	—	—
Between three months and six months (inclusive).....	290,189	—	—	—
Between six months and one year (inclusive).....	402,683	—	—	—
More than one year .....	472,352	—	—	—
Gross amount .....	3,616,318	—	—	—
Provision for impairment losses.....	(574,581)	—	—	—
Sub-total.....	3,041,737	—	—	—
<i>Neither overdue nor impaired</i>				
Gross amount .....	105,381,293	5,159,629	8,546,702	36,585,059
Provision for impairment losses.....	(2,825,345)	—	—	(285,397)
Sub-total.....	102,555,948	5,159,629	8,546,702	36,299,662
Total .....	106,449,790	5,161,321	8,546,702	36,588,702

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Group*

	At December 31, 2015			
	Loans and advances	Deposits / Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments  (*)
<i>Impaired</i>				
Individually assessed gross amount.....	2,116,133	20,525	—	1,050,000
Provision for impairment losses.....	(1,436,409)	(19,704)	—	(364,710)
Sub-total.....	679,724	821	—	685,290
Collectively assessed gross amount.....	603,075	—	—	—
Provision for impairment losses.....	(406,725)	—	—	—
Sub-total.....	196,350	—	—	—
<i>Overdue but not Impaired</i>				
Less than three months (inclusive).....	7,364,063	—	—	348,500
Between three months and six months (inclusive).....	758,380	—	—	—
Between six months and one year (inclusive).....	2,526,556	—	—	—
More than one year .....	1,203,410	—	—	—
Gross amount .....	11,852,409	—	—	348,500
Provision for impairment losses.....	(1,370,534)	—	—	(6,743)
Sub-total.....	10,481,875	—	—	341,757
<i>Neither overdue nor impaired</i>				
Gross amount .....	125,027,874	5,044,386	24,559,351	87,884,761
Provision for impairment losses.....	(2,509,742)	—	—	(210,973)
Sub-total.....	122,518,132	5,044,386	24,559,351	87,673,788
Total .....	133,876,081	5,045,207	24,559,351	88,700,835

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*The Group*

	At December 31, 2016			
	Loans and advances	Deposits / Placements with banks and other financial institutions	Financial assets held under resale agreements	Investments  (*)
<i>Impaired</i>				
Individually assessed gross amount.....	1,971,377	19,661	—	1,650,000
Provision for impairment losses.....	(1,400,604)	(19,661)	—	(330,406)
Sub-total.....	570,773	—	—	1,319,594
Collectively assessed gross amount.....	1,090,763	—	—	—
Provision for impairment losses.....	(833,971)	—	—	—
Sub-total.....	256,792	—	—	—
<i>Overdue but not Impaired</i>				
Less than three months (inclusive).....	3,869,772	—	—	—
Between three months and six months (inclusive).....	223,527	—	—	—
Between six months and one year (inclusive).....	106,600	—	—	—
More than one year .....	869,683	—	—	—
Gross amount .....	5,069,582	—	—	—
Provision for impairment losses.....	(895,782)	—	—	—
Sub-total.....	4,173,800	—	—	—
<i>Neither overdue nor impaired</i>				
Gross amount .....	156,756,815	21,530,492	6,573,627	181,981,183
Provision for impairment losses.....	(3,210,889)	—	—	(328,655)
Sub-total.....	153,545,926	21,530,492	6,573,627	181,652,528
Total .....	158,547,291	21,530,492	6,573,627	182,972,122

\* Investments comprise financial assets at fair value through profit or loss, available-for-sale debt investments, held-to-maturity investments and debt securities classified as receivables.

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The fair value of collaterals held against loans and advances overdue but not impaired at December 31, 2014, 2015 and 2016 amounted to RMB 2,553.11 million, RMB 9,914.24 million and RMB 5,419.07 million. The fair value of collaterals held against loans and advances impaired at December 31, 2014, 2015 and 2016 amounted to RMB 273.67 million, RMB 679.72 million and RMB 568.84 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

The Group has formulated a set of loan restructuring policies to reschedule the contractual terms with customers, to maximise the collectability of loans and to manage customer relationships.

The carrying amount of rescheduled loans and advances to customers is as follows:

	As December 31,		
	2014	2015	2016
Rescheduled loans and advances to customers.....	31,330	2,000	—
Impaired loans and advances to customers included in above.....	31,330	2,000	—

(iv) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institution. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	At December 31,		
	2014	2015	2016
Neither overdue nor impaired.....			
Ratings .....			
- A to AAA.....	11,239,472	29,338,762	26,196,209
- B to BBB.....	2,466,859	264,975	1,907,910
Total .....	<u>13,706,331</u>	<u>29,603,737</u>	<u>28,104,119</u>



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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
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(v) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of the Relevant Periods are as follows:

	<u>At December 31,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Neither overdue nor impaired.....			
Ratings .....			
- AAA .....	1,181,702	3,043,356	3,767,587
- AA- to AA+ .....	2,338,644	1,794,945	1,540,759
- A- to A+ .....	280,845	3,383,931	646,785
- unrated.....	<u>12,131,673</u>	<u>27,100,060</u>	<u>67,884,975</u>
Total .....	<u><u>15,932,864</u></u>	<u><u>35,322,292</u></u>	<u><u>73,840,106</u></u>

(b) *Market risk*

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions. The Finance Management Department is responsible for monitoring and managing the interest rate risk, the Trade Finance Department is responsible for monitoring and managing the foreign exchange risk on a daily basis. The Finance Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on / off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

### **Interest rate risk**

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

#### *Repricing risk*

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Finance Management Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

#### *Trading interest rate risk*

Trading interest rate risk mainly arises from the financial markets business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

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(i) The following tables indicate the assets and liabilities as at the end of each of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

*The Group*

	At December 31, 2014					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank .....	39,428,965	—	—	—	1,358,570	40,787,535
Deposits with banks and other financial institutions .....	5,159,629	—	—	—	—	5,159,629
Placement with banks and other financial institutions .....	—	—	—	—	1,692	1,692
Financial assets held under resale agreements.....	8,546,702	—	—	—	—	8,546,702
Loans and advances to customers (Note (i)).....	28,370,141	68,084,249	5,873,480	4,121,920	—	106,449,790
Investments (Note (ii)).....	4,856,051	11,402,766	15,116,002	5,213,883	23,896	36,612,598
Others.....	—	—	—	—	9,389,818	9,389,818
<b>Total assets</b> .....	<b>86,361,488</b>	<b>79,487,015</b>	<b>20,989,482</b>	<b>9,335,803</b>	<b>10,773,976</b>	<b>206,947,764</b>
<b>Liabilities</b>						
Borrowing from the Central bank....	341,393	364,539	—	—	—	705,932
Deposits from banks and other financial institutions .....	2,865,455	2,470,000	400,000	—	—	5,735,455
Financial assets sold under repurchase agreements .....	2,126,200	—	—	—	—	2,126,200
Deposits from customers.....	107,770,934	38,149,351	17,651,051	266,828	757,668	164,595,832
Others.....	—	—	—	—	5,773,201	5,773,201
<b>Total liabilities</b> .....	<b>113,103,982</b>	<b>40,983,890</b>	<b>18,051,051</b>	<b>266,828</b>	<b>6,530,869</b>	<b>178,936,620</b>
<b>Asset-liability gap</b> .....	<b>(26,742,494)</b>	<b>38,503,125</b>	<b>2,938,431</b>	<b>9,068,975</b>	<b>4,243,107</b>	<b>28,011,144</b>

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*The Group*

	At December 31, 2015					
	Within three months	Three months to one year	One year to five years	More than five years	Non- interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank .....	42,016,880	—	—	—	1,253,824	43,270,704
Deposits with banks and other financial institutions .....	4,044,386	1,000,000	—	—	—	5,044,386
Placement with banks and Other financial institutions .....	—	—	—	—	821	821
Financial assets held under resale agreements.....	24,363,351	196,000	—	—	—	24,559,351
Loans and advances to customers (Note (i)).....	40,602,432	83,217,802	9,278,859	776,988	—	133,876,081
Investments (Note (ii)).....	33,506,519	20,368,757	27,383,157	7,442,402	23,896	88,724,731
Others.....	—	—	—	—	10,414,620	10,414,620
<b>Total assets</b> .....	<u>144,533,568</u>	<u>104,782,559</u>	<u>36,662,016</u>	<u>8,219,390</u>	<u>11,693,161</u>	<u>305,890,694</u>
<b>Liabilities</b>						
Borrowing from the Central bank....	311,826	1,340,000	—	—	—	1,651,826
Deposits from banks and other financial institutions .....	23,424,973	5,710,800	250,000	—	—	29,385,773
Financial assets sold under repurchase agreements .....	24,937,605	—	—	—	—	24,937,605
Deposits from customers.....	126,397,621	51,690,238	26,873,851	21,757	386,887	205,370,354
Debt securities issued .....	2,436,706	542,339	—	—	—	2,979,045
Others.....	—	—	—	—	8,148,067	8,148,067
<b>Total liabilities</b> .....	<u>177,508,731</u>	<u>59,283,377</u>	<u>27,123,851</u>	<u>21,757</u>	<u>8,534,954</u>	<u>272,472,670</u>
<b>Asset-liability gap</b> .....	<u>(32,975,163)</u>	<u>45,499,182</u>	<u>9,538,165</u>	<u>8,197,633</u>	<u>3,158,207</u>	<u>33,418,024</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Group*

	At December 31, 2016					
	Within three months	Three months to one year	One year to five years	More than five years	Non- interest bearing	Total
<b>Assets</b>						
Cash and deposits with the central bank .....	48,078,414	—	—	—	1,292,479	49,370,893
Deposits with banks and other financial institutions .....	12,780,492	50,000	—	—	—	12,830,492
Placement with banks and- Other financial institutions .....	7,700,000	1,000,000	—	—	—	8,700,000
Financial assets held under resale agreements.....	6,573,627	—	—	—	—	6,573,627
Loans and advances to customers (Note (i)).....	63,963,131	82,925,251	10,911,050	747,859	—	158,547,291
Investments (Note (ii)).....	53,475,106	55,051,732	53,104,955	21,340,329	23,896	182,996,018
Others.....	—	—	—	—	14,053,118	14,053,118
<b>Total assets</b> .....	<u>192,570,770</u>	<u>139,026,983</u>	<u>64,016,005</u>	<u>22,088,188</u>	<u>15,369,493</u>	<u>433,071,439</u>
<b>Liabilities</b>						
Borrowing from the Central bank....	2,634,048	1,883,000	—	—	—	4,517,048
Deposits from banks and other financial institutions .....	33,999,274	10,705,500	250,000	—	—	44,954,774
Placement from banks and Other financial institutions .....	10,400,000	—	—	—	—	10,400,000
Financial assets sold under repurchase agreements .....	27,580,567	—	—	—	—	27,580,567
Deposits from customers.....	168,119,458	53,149,500	23,612,895	20,936	449,965	245,352,754
Debt securities issued .....	21,177,923	36,209,835	—	—	—	57,387,758
Others.....	—	—	—	—	7,379,899	7,379,899
<b>Total liabilities</b> .....	<u>263,911,270</u>	<u>101,947,835</u>	<u>23,862,895</u>	<u>20,936</u>	<u>7,829,864</u>	<u>397,572,800</u>
<b>Asset-liability gap</b> .....	<u>(71,340,500)</u>	<u>37,079,148</u>	<u>40,153,110</u>	<u>22,067,252</u>	<u>7,539,629</u>	<u>35,498,639</u>

*Notes:*

- (i) As at December 31, 2014, 2015 and 2016, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB 3,793.21 million, RMB 11,360.44 million, RMB 4,999.86 million, respectively.
- (ii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

## (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at December 31, 2014, 2015 and 2016, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group's net profit to decrease RMB 67.21 million, decrease RMB 220.43 million and decrease RMB 719.39 million, and the Group's equity to decrease RMB 46.08 million, decrease RMB 88.43 million and decrease RMB 363.88 million; a decrease in estimated interest rate of 100 basis points will cause the Group's net profit to increase RMB 67.21 million, increase RMB 220.43 million and increase RMB 719.39 million, and the Group's equity to increase RMB 46.08 million, increase RMB 88.43 million and increase RMB 363.88 million.

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

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

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

**Foreign currency risk**

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors considered the Group's exposure to foreign currency risk is not significant during the Relevant Periods.

(c) *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 sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee (“ALMC”) is responsible for managing the Group’s overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank’s funds.

The Finance Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group’s assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the Relevant Periods:

*The Group*

		At December 31, 2014					
		Repayable on demand	Within one month	Between one month and three months and one year	Between one year and five years	More than five years	Total
	Note (i)						
<b>Assets</b>							
Cash and deposits with the central bank .....	19,573,554	21,213,981	—	—	—	—	40,787,535
Deposits with banks and other financial institutions.....	—	3,486,629	1,573,000	100,000	—	—	5,159,629
Placements with banks and other financial institutions.....	—	1,692	—	—	—	—	1,692
Loans and advances to customers.....	2,991,406	903,636	9,719,943	14,383,408	68,191,180	4,120,198	106,449,790
Financial assets held under resale agreements .....	—	—	7,896,802	649,900	—	—	8,546,702
Investments .....	312,936	—	2,582,736	2,206,226	11,180,815	5,213,883	36,612,598
Others .....	7,940,273	—	520,019	350,760	76,021	502,745	9,389,818
Total assets.....	30,818,169	25,605,938	22,292,500	17,690,294	79,448,016	21,758,766	206,947,764



At 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	Total
<b>Liabilities</b>								
Borrowing from the central bank.....	—	—	218,718	122,675	364,539	—	—	705,932
Deposits from banks and other financial institutions.....	—	2,655,151	170,304	40,000	2,470,000	400,000	—	5,735,455
Financial assets sold under repurchase agreements.....	—	—	877,200	1,249,000	—	—	—	2,126,200
Deposits from customers.....	—	80,616,773	12,450,589	15,461,240	38,149,351	17,651,051	266,828	164,595,832
Others .....	39,333	1,678,866	—	1,132,079	2,023,763	809,462	89,698	5,773,201
Total liabilities .....	39,333	84,950,790	13,716,811	18,004,994	43,007,653	18,860,513	356,526	178,936,620
Long / (short) position.....	30,778,836	(59,344,852)	8,575,689	(314,700)	36,440,363	2,898,253	8,977,555	28,011,144

Note (i)

*The Group*

		At December 31, 2015						
		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
	Indefinite							
	Note (i)							
<b>Assets</b>								
Cash and deposits with the central bank ..... 28,995,835 14,274,869 — — — — 43,270,704								
Deposits with banks and other financial institutions ..... — 2,044,386 2,000,000 — 1,000,000 — — 5,044,386								
Placements with banks and other financial institutions ..... — 821 — — — — 821								
Loans and advances to customers ..... 9,058,862 2,503,004 6,652,945 15,432,010 83,703,050 10,368,155 6,158,055 133,876,081								
Financial assets held under resale agreements ..... 1,875,196 — 13,082,850 9,405,305 196,000 — — 24,559,351								
Investments ..... 709,186 — 11,183,874 21,857,355 19,982,972 27,329,924 7,661,420 88,724,731								
Others ..... 7,720,561 — 1,550,301 345,224 25,285 773,249 — 10,414,620								
Total assets ..... 48,359,640 18,823,080 34,469,970 47,039,894 104,907,307 38,471,328 13,819,475 305,890,694								

At December 31, 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
<b>Liabilities</b>								
Borrowing from the central bank.....	—	—	174,933	136,893	1,340,000	—	—	1,651,826
Deposits from banks and other financial institutions.....	—	1,494,973	15,480,000	5,350,000	6,810,800	250,000	—	29,385,773
Financial assets sold under repurchase agreements.....	1,875,348	—	23,062,257	—	—	—	—	24,937,605
Deposits from customers.....	—	98,667,994	8,382,164	19,734,350	51,690,238	26,873,851	21,757	205,370,354
Debt securities issued.....	—	—	—	2,436,706	542,339	—	—	2,979,045
Others .....	26,385	3,227,272	—	1,127,453	2,897,044	808,081	61,832	8,148,067
Total liabilities .....	1,901,733	103,390,239	47,099,354	28,785,402	63,280,421	27,931,932	83,589	272,472,670
Long / (short) position.....	46,457,907	(84,567,159)	(12,629,384)	18,254,492	41,626,886	10,539,396	13,735,886	33,418,024

Note (i)

*The Group*

At December 31, 2016							
	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
<b>Assets</b>							
Cash and deposits with the central bank.....	16,687,201	—	—	—	—	—	49,370,893
Deposits with banks and other financial institutions.....	1,543,296	5,325,000	5,912,196	50,000	—	—	12,830,492
Placements with banks and other financial institutions ...	—	7,400,000	300,000	1,000,000	—	—	8,700,000
Loans and advances to customers .....	1,284,235	9,613,451	20,256,555	87,753,075	15,317,051	20,605,793	158,547,291
Financial assets held under resale agreements .....	—	6,573,627	—	—	—	—	6,573,627
Investments.....	348,250	18,400,117	33,407,145	55,051,732	53,104,955	21,340,329	182,996,018
Others.....	6,912	1,808,611	957,397	283,951	987,273	—	14,053,118
Total assets .....	19,869,894	49,120,806	60,833,293	144,138,758	69,409,279	41,946,122	433,071,439

Note (i)

At December 31, 2016

	Indefinite	Repayable on demand	Between			More than five years	Total
			Within one month	Between three months and one year	Between one year and five years		
Note (i)							
<b>Liabilities</b>							
Borrowing from the central bank .....	—	45,860	2,315,273	272,915	1,883,000	—	4,517,048
Deposits from banks and other financial institutions .....	—	1,516,274	12,149,000	20,334,000	10,705,500	250,000	44,954,774
Placements from banks and other financial institutions ...	—	—	10,400,000	—	—	—	10,400,000
Financial assets sold under repurchase agreements .....	—	—	27,580,567	—	—	—	27,580,567
Deposits from customers .....	—	128,532,881	10,936,234	29,100,309	53,149,499	23,612,895	245,352,754
Debt securities issued .....	—	—	7,587,565	29,076,050	20,724,143	—	57,387,758
Others .....	—	865,164	—	2,300,276	3,343,670	725,280	7,379,899
Total liabilities .....	—	130,960,179	70,968,639	81,083,550	89,805,812	24,588,175	397,572,800
Long / (short) position .....	47,753,287	(111,090,285)	(21,847,833)	(20,250,257)	54,332,946	44,821,104	35,498,639

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments is listed in the category of indefinite.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments at the end of each of the Relevant Periods:

*The Group*

	At December 31, 2014							
	Carrying amount	Contractual undiscounted cash flow	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
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank.....	705,932	714,212	—	220,309	123,499	370,404	—	—
Deposits from banks and other financial institutions.....	5,735,455	5,864,854	2,658,345	170,703	40,496	2,543,935	451,375	—
Financial assets sold under repurchase agreements.....	2,126,200	2,138,143	—	883,092	1,255,051	—	—	—
Deposits from customers.....	164,595,832	166,385,040	80,728,978	12,480,875	15,575,479	38,965,258	18,366,151	268,299
Other financial liabilities.....	3,530,278	3,530,278	1,642,101	—	394,259	1,025,764	346,832	121,322
Total non-derivative financial liabilities.....	176,693,697	178,632,527	85,029,424	13,754,979	17,388,784	42,905,361	19,164,358	389,621
Loan commitments.....	—	815,101	120,646	694,455	—	—	—	—

*The Group*

At December 31, 2015								
	Carrying amount	Contractual undiscounted cash flow	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
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank.....	1,651,826	1,670,502	—	175,855	137,646	1,357,001	—	—
Deposits from banks and other financial institutions.....	29,385,773	29,643,320	1,495,211	15,496,937	5,384,050	6,954,350	312,772	—
Financial assets sold under repurchase agreements.....	24,937,605	24,950,744	—	23,075,396	—	—	—	1,875,348
Deposits from customers.....	205,370,354	207,973,533	98,800,836	8,391,134	19,771,954	52,361,337	28,622,476	25,796
Debt securities issued.....	2,979,045	3,008,180	—	—	2,456,647	551,533	—	—
Other financial liabilities.....	5,713,992	5,713,992	3,163,908	—	594,902	1,762,707	105,034	87,441
<b>Total non-derivative financial liabilities.....</b>	<b>270,038,595</b>	<b>272,960,271</b>	<b>103,459,955</b>	<b>47,139,322</b>	<b>28,345,199</b>	<b>62,986,928</b>	<b>29,040,282</b>	<b>1,988,585</b>
Loan commitments.....	—	1,229,106	535,203	693,903	—	—	—	—

The Group

	At December 31, 2016							
	Carrying amount	Contractual undiscounted cash flow	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
<b>Non-derivative financial liabilities</b>								
Borrowing from the central bank.....	4,517,048	4,579,834	45,884	2,321,055	274,441	1,938,454	—	—
Deposits from banks and other financial institutions.....	44,954,774	45,376,762	1,517,131	12,164,950	20,475,723	10,919,322	299,636	—
Placements from banks and other financial institutions.....	10,400,000	10,410,975	—	10,410,975	—	—	—	—
Financial assets sold under repurchase agreements.....	27,580,567	27,613,356	—	27,613,356	—	—	—	—
Deposits from customers.....	245,352,754	247,956,133	128,697,706	10,938,836	29,170,388	53,767,091	25,358,678	23,434
Debt securities issued.....	57,387,758	58,212,889	—	7,607,789	29,713,422	20,891,678	—	—
Other financial liabilities.....	4,973,458	4,973,458	837,206	—	1,530,174	2,333,958	232,352	39,768
Total non-derivative financial liabilities.....	395,166,359	399,123,407	131,097,927	71,056,961	81,164,148	89,850,503	25,890,666	63,202
Loan commitments.....	—	1,688,575	777,790	730,785	—	170,000	10,000	—

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.



(d) *Operational risk*

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

47 **Fair value**

(a) *Methods and assumptions for measurement of fair value*

The Group adopts the following methods and assumptions when evaluating fair values:

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the Relevant Periods.

(ii) *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 the Relevant Periods.

(iii) *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 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 the Relevant Periods.

**(b) Fair value measurement****(i) Financial assets**

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and financial assets at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 22. The carrying amounts of debt securities classified as receivables are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently.

**(ii) Financial liabilities**

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 35. The carrying amounts of other financial liabilities approximate their fair value.

**(c) Fair value hierarchy**

The following table presents the fair value of the Bank's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: .....	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
Level 2: .....	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
Level 3: .....	Fair value measured using significant unobservable inputs

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, and credit spreads. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

*The Group*

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- debt instruments.....	—	2,895,056	—	2,895,056
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	1,722,625	—	1,722,625
- investment management products .....	—	541,750	—	541,750
- wealth management products.....	—	1,568,598	—	1,568,598
- others.....	—	1,753,033	—	1,753,033
Total .....	—	8,481,062	—	8,481,062

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- debt instruments.....	—	17,144,182	—	17,144,182
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	5,442,634	—	5,442,634
- investment management products .....	—	2,651,233	—	2,651,233
- wealth management products.....	—	16,845,600	—	16,845,600
Total .....	—	42,083,649	—	42,083,649

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	At December 31, 2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i> .....				
- debt instruments.....	—	4,207,070	—	4,207,070
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	51,781,223	—	51,781,223
- investment management products .....	—	9,389,752	—	9,389,752
- wealth management products.....	—	34,287,700	—	34,287,700
- others.....	—	6,776,238	—	6,776,238
Total .....	—	106,441,983	—	106,441,983

*The Bank*

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i> .....				
- debt instruments.....	—	2,895,056	—	2,895,056
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	1,722,625	—	1,722,625
- investment management products .....	—	541,750	—	541,750
- wealth management products.....	—	1,538,598	—	1,538,598
- others.....	—	1,753,033	—	1,753,033
Total .....	—	8,451,062	—	8,451,062

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- debt instruments.....	—	17,144,182	—	17,144,182
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	5,442,634	—	5,442,634
- investment management products .....	—	2,651,233	—	2,651,233
- wealth management products.....	—	16,795,600	—	16,795,600
Total .....	—	42,033,649	—	42,033,649

	At December 31, 2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- debt instruments.....	—	4,207,070	—	4,207,070
<i>Available-for-sale financial assets</i>				
- debt instruments.....	—	51,781,223	—	51,781,223
- investment management products .....	—	9,389,752	—	9,389,752
- wealth management products.....	—	34,287,700	—	34,287,700
- others.....	—	6,776,238	—	6,776,238
Total .....	—	106,441,983	—	106,441,983

During the Relevant Periods, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

**48 Entrusted lending business**

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statements of financial position. Surplus funding is accounted for as deposits from customers.

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

*The Group*

	At December 31,		
	2014	2015	2016
Entrusted loans .....	<u>8,731,166</u>	<u>8,202,729</u>	<u>21,898,680</u>
Entrusted funds .....	<u>8,731,166</u>	<u>8,202,729</u>	<u>21,898,680</u>

*The Bank*

	At December 31,		
	2014	2015	2016
Entrusted loans .....	<u>8,572,786</u>	<u>7,904,495</u>	<u>21,427,085</u>
Entrusted funds .....	<u>8,572,786</u>	<u>7,904,495</u>	<u>21,427,085</u>

**49 Commitments and contingent liabilities**

(a) *Credit commitments*

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
Loan commitments			
- Original contractual maturity within one year .....	815,101	1,229,106	1,678,575
- Original contractual maturity more than one year (inclusive) .....	—	—	10,000
Sub-total .....	<u>815,101</u>	<u>1,229,106</u>	<u>1,688,575</u>
Acceptances .....	35,869,215	46,705,239	33,238,846
Letters of credit .....	—	—	1,205,172
Letters of guarantees .....	<u>238,934</u>	<u>282,371</u>	<u>735,478</u>
Total .....	<u>36,923,250</u>	<u>48,216,716</u>	<u>36,868,071</u>

**APPENDIX IB ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

The Group may be exposed to credit risk in all the above credit businesses. Group 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.

**(b) Credit risk-weighted amount**

*The Group and the Bank*

	At December 31,		
	2014	2015	2016
Credit risk-weighted amount .....	<u>20,185,834</u>	<u>19,440,424</u>	<u>15,175,182</u>

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBRC.

**(c) Operating lease commitments**

As at the end of each of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

*The Group*

	At December 31,		
	2014	2015	2016
Within one year (inclusive) .....	80,839	111,531	110,550
After one year but within five years (inclusive) .....	309,690	320,656	405,209
After five years .....	<u>75,149</u>	<u>69,662</u>	<u>159,956</u>
Total .....	<u>465,678</u>	<u>501,849</u>	<u>675,715</u>

*The Bank*

	At December 31,		
	2014	2015	2016
Within one year (inclusive) .....	77,450	107,948	105,654
After one year but within five years (inclusive) .....	299,903	310,132	389,907
After five years .....	<u>71,759</u>	<u>63,924</u>	<u>151,511</u>
Total .....	<u>449,112</u>	<u>482,004</u>	<u>647,072</u>

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**APPENDIX IB                      ACCOUNTANTS' REPORT FOR THE PERIOD FROM DECEMBER 23, 2014 TO  
DECEMBER 31, 2014 AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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**(d) *Capital commitments***

As at the end of each of the Relevant Periods, the Group's authorized capital commitments are as follows:

	<b>At December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Contracted but not paid for .....	213,186	198,915	253,553
Approved but not contracted for .....	46,448	41,043	272,396
Total .....	<u>259,634</u>	<u>239,958</u>	<u>525,949</u>

As at the end of each of the Relevant Periods, the Bank's authorized capital commitments are as follows:

	<b>At December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Contracted but not paid for .....	213,186	197,974	253,310
Approved but not contracted for .....	46,448	41,043	272,396
Total .....	<u>259,634</u>	<u>239,017</u>	<u>525,706</u>

**(e) *Outstanding litigations and disputes***

As at December 31, 2014, 2015 and 2016, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB 308.68 million, RMB 306.27 million and RMB 599.52 million, respectively. The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

**50 Subsequent events**

The Group had no material events for disclosure subsequent to December 31, 2016 and up to the date of this Accountants' Report.

**SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Bank and its subsidiaries comprising the Group in respect of any period subsequent to December 31, 2016.



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**APPENDIX IIA    UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR  
THE PERIOD FROM JANUARY 1, 2014 TO DECEMBER 22, 2014**

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*The information set out below does not form part of the Accountants' Reports prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendices IA and IB to this prospectus, and is included herein for information purpose only.*

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Predecessor Entities disclose the unaudited supplementary financial information as follows:

**1    Liquidity coverage ratio**

**Liquidity coverage ratio**

	<u>At December 22, 2014</u>	<u>Average for the period from January 1, 2014 to December 22, 2014</u>
Liquidity coverage ratio (RMB and foreign currency) .....	<u>219.37%</u>	<u>211.64%</u>

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

**2    Currency concentrations**

As at December 22, 2014, the Predecessor Entities' businesses are conducted in RMB and all the Predecessor Entities' monetary assets and liabilities are denominated in RMB.

The Predecessor Entities have no structural position as at December 22, 2014.

**3    International claims**

The Predecessor Entities are principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims. As at December 22, 2014, the Predecessor Entities have no international claims.

**4    Gross amount of overdue loans and advances**

	<u>At December 22, 2014</u>
Gross loans and advances which have been overdue with respect to either principal or interest for periods of	
— between 3 and 6 months (inclusive) .....	807,909
— between 6 months and 1 year (inclusive).....	1,061,609
— over 1 year.....	<u>1,165,473</u>
Total .....	<u>3,034,991</u>
As a percentage of total gross loans and advances	
— between 3 and 6 months (inclusive) .....	0.73%
— between 6 months and 1 year (inclusive).....	0.97%
— over 1 year.....	<u>1.06%</u>
Total .....	<u>2.76%</u>

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**APPENDIX IIB    UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR  
THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014  
AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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*The information set out below does not form part of the Accountants' Reports prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendices IA and IB to this prospectus, and is included herein for information purpose only.*

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

**1    Liquidity coverage ratio and leverage ratio**

**Liquidity coverage ratio**

	<u>At December 31, 2014</u>	<u>Average for the period from December 23, 2014 to December 31, 2014</u>
Liquidity coverage ratio (RMB and foreign currency) ..	<u>218.69%</u>	<u>219.03%</u>
	<u>At December 31, 2015</u>	<u>Average for the year ended December 31, 2015</u>
Liquidity coverage ratio (RMB and foreign currency) ..	<u>204.10%</u>	<u>206.48%</u>
	<u>At December 31, 2016</u>	<u>Average for the year ended December 31, 2016</u>
Liquidity coverage ratio (RMB and foreign currency) ..	<u>201.24%</u>	<u>200.99%</u>

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

**Leverage ratio**

	<u>At December 31,</u>	
	<u>2015</u>	<u>2016</u>
Leverage ratio.....	<u>9.36%</u>	<u>7.43%</u>

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

**APPENDIX IIB    UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR  
THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014  
AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

**2    Currency concentrations**

At December 31, 2014				
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets .....	—	—	—	—
Spot liabilities .....	—	—	—	—
Net position .....	—	—	—	—

At December 31, 2015				
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets .....	—	—	—	—
Spot liabilities .....	—	—	—	—
Net position .....	—	—	—	—

At December 31, 2016				
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets .....	192,978	89	1,593	194,660
Spot liabilities .....	(185,019)	(89)	(1,607)	(186,715)
Net position .....	7,959	—	(14)	7,945

The Group has no structural position at the end of each of the Relevant Periods.

**3    International claims**

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks and amounts due from banks and other financial institutions.

**APPENDIX IIB    UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR  
THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014  
AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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.

At December 31, 2014				
	Banks and other financial institutions	Public sector entities	Others	Total
All regions outside Mainland				
China.....	—	—	—	—
	—	—	—	—
	—	—	—	—

At December 31, 2015				
	Banks and other financial institutions	Public sector entities	Others	Total
All regions outside Mainland				
China.....	—	—	—	—
	—	—	—	—
	—	—	—	—

At December 31, 2016				
	Banks and other financial institutions	Public sector entities	Others	Total
All regions outside Mainland				
China.....	56,470	—	—	56,470
	56,470	—	—	56,470
	56,470	—	—	56,470

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**APPENDIX IIB    UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR  
THE PERIOD FROM DECEMBER 23, 2014 TO DECEMBER 31, 2014  
AND YEARS ENDED DECEMBER 31, 2015 AND 2016**

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**4    Gross amount of overdue loans and advances**

	At December 31,		
	2014	2015	2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of			
— between 3 and 6 months (inclusive) .....	728,767	1,267,274	399,073
— between 6 months and 1 year (inclusive).....	891,465	3,696,479	1,305,838
— over 1 year.....	<u>1,291,819</u>	<u>2,229,068</u>	<u>2,402,763</u>
Total .....	<u><u>2,912,051</u></u>	<u><u>7,192,821</u></u>	<u><u>4,107,674</u></u>
As a percentage of total gross loans and Advances			
— between 3 and 6 months (inclusive) .....	0.66%	0.91%	0.24%
— between 6 months and 1 year (inclusive).....	0.80%	2.65%	0.79%
— over 1 year.....	<u>1.16%</u>	<u>1.60%</u>	<u>1.45%</u>
Total .....	<u><u>2.62%</u></u>	<u><u>5.16%</u></u>	<u><u>2.48%</u></u>

## APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set out below does not form part of the Accountants' Reports prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendices IA and IB to this prospectus, and is included herein for illustrative purpose only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Reports set out in Appendices IA and IB to this prospectus.*

### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group as of December 31, 2016, as if the Global Offering had taken place on December 31, 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of December 31, 2016 or at any future date.

	<b>Consolidated net tangible assets attributable to Shareholders of the Bank as of December 31, 2016</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank</b>	<b>Pro forma adjusted consolidated net tangible assets per share</b>	
	<b>RMB Million</b>	<b>RMB Million</b>	<b>RMB Million</b>	<b>RMB</b>	<b>HK\$</b>
	<b>Note (1)</b>	<b>Note (2)/(5)</b>	<b>Note (4)</b>	<b>Note (4)</b>	<b>Note (5)</b>
Based on an offer price of HK\$2.42 per share .....	33,015.4	6,152.9	39,168.3	2.00	2.29
Based on an offer price of HK\$2.53 per share .....	33,015.4	6,435.3	39,450.7	2.01	2.30

*Notes:*

- (1) The consolidated net tangible assets attributable to Shareholders of the Bank as of December 31, 2016 are based on the consolidated net assets attributable to shareholders of the Bank of RMB 34,719.2 million after (i) deduction of goodwill of RMB 468.4 million and intangible assets of RMB1,235.8 million; and (ii) adjusting the share of intangible assets attributable to non-controlling interests of RMB 0.4 million.
- (2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK\$2.42 (being the low-end of the proposed Offer Price range) and HK\$2.53 per H Share (being the high-end of the proposed Offer Price range) and the assumption that there are 3,000,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank (excluding listing expenses of RMB4.0 million which have already been charged to consolidated statement of profit or loss during the year ended December 31, 2016) and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Bank subsequent to December 31, 2016.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived on the basis of 19,625,000,000 shares in issue assuming that the Global Offering has been completed on December 31, 2016 and that the Over-allotment Option is not exercised.
- (5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets per share are translated into or from Renminbi at the rate of RMB0.8750 to HK\$1.00, the exchange rate set by the PBOC prevailing on June 23, 2017. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

**B.    REPORT FROM THE REPORTING ACCOUNTANTS**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.*

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF ZHONGYUAN BANK CO., LTD.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Zhongyuan Bank Co., Ltd (the "Bank") and its subsidiaries (collectively the "Group") by the directors of the Bank (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at December 31, 2016 and related notes as set out in Part A of Appendix III to the prospectus dated June 30, 2017 (the "Prospectus") issued by the Bank. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Bank (the "Global Offering") on the Group's financial position as at December 31, 2016 as if the Global Offering had taken place at December 31, 2016. As part of this process, information about the Group's financial position as at 31 December 2016 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix IB 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").

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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## APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### *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 plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at December 31, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.



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**APPENDIX III      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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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 "Use of Proceeds" in the Prospectus.

*Opinion*

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

June 30, 2017

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the Bank's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix VI—Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers. The principal objective of this summary is to provide potential investors with an overview of the principal legal and regulatory provisions applicable to the Bank. This summary is not intended to include all the information which may be important to potential investors. For discussion of laws and regulations which are relevant to our own business, see "Supervision and Regulation" in this prospectus.

## **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.

Pursuant to the Constitution and the Legislation Law of the People's Republic of China ("**Legislation Law**"), the National People's Congress ("**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 formulates and amends laws other than those required to be enacted by the NPC and to supplement and amends 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 and their 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. 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. The standing committees of the people's congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned.

Where, during the examination for approval of local regulations of cities divided into districts by the standing committees of the people's congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people's governments of the provinces or autonomous regions concerned, a decision should be made by the standing committees of the people's congresses of provinces or autonomous regions to resolve the issue. 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 departmental 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 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.

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解釋工作的決議) passed on June 10, 1981, issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court; issues related to the application of laws in a prosecution process of the procuratorates should be interpreted by the Supreme People's Procuratorate; and issues related to laws other than those mentioned above 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 administrative regulations and departmental rules 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 may set up civil, criminal and economic divisions, and certain people's courts based on the status 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 special 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 courts at all levels.

The people's courts employ a two-tier appellate system, i.e., judgments or rulings of the second instance at a people's court are final. 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 those of the first instance of the Supreme People's Court are final. However, if the Supreme People's Court or a people's court at the next higher level discovers an error in a final and binding judgment or ruling which has come into effect in any people's court at a lower level, or the presiding judge of a people's court discovers an error in a final and binding judgment or ruling which has come into effect in the court over which he presides, a retrial of the case may be initiated according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "**PRC Civil Procedure Law**") adopted on April 9, 1991 and amended twice on October 28, 2007 and August 31, 2012 respectively prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places directly connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. However, such choice shall not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality or a foreign-invested enterprise or organization is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, foreign-invested 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 people's court and a foreign court may request each other to serve 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 legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment against such party.

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 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 successively amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013. The newly revised PRC Company Law has been implemented since March 1, 2014.

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) (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 that the provisions should be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association of the Bank. References to a “company” made in this Appendix are to a joint stock limited company established under the PRC Company Law with H Shares to be issued.

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 incorporated 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 residents 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, administrative 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’ agreements. 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 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 PRC law, 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 monies. 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 after the subscription monies for the shares issued have been 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 is formally established and has the status of a legal person after approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoters 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 in the course of its incorporation as a result of the promoters' default.

### ***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 laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of laws or administrative regulations on valuation without any over-valuation or under-valuation.

The issuance of shares shall be conducted in a fair and equitable manner. Each share of the same class 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 (whether an entity or an individual). 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 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 currencies. Shares issued to foreign investors (including 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, other than these regions mentioned 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 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***

Pursuant to the PRC Company Law, 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 relevant administration bureau for industry and commerce 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 a related announcement in newspapers within 30 days of the resolution approving the reduction being passed;
- (iv) The creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and
- (v) The company must apply to the relevant administration bureau for industry and commerce for change in registration due to reduction in registered capital.

***Repurchase of Shares***

A company may not repurchase 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) under the first paragraph of this subsection shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds allocated from the company's profits after taxation, and the shares so acquired shall be transferred to the employees within one year.

***Transfer of Shares***

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the PRC Company Law, 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 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.

Pursuant to the PRC Company Law, 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 every 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 and exercise the voting rights;
- (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 participate in distribution of 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 laws, administrative regulations, other normative documents and 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 dismiss 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 proposes; 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, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting. The board of directors shall notify other shareholders within two days of receiving such proposal and table it for review by the general meeting. Provisional proposals shall relate to specific subjects and matters for

resolution within the authority of the general meeting. A shareholders' general meeting shall not make any resolution in respect of any matters not set out in the above two types of notices. Holders of bearer share certificates who wish to attend a shareholders' general meeting shall deposit their share certificates with the company five days before the meeting and till the conclusion of the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing no less than 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting, and the general meeting may be held by the company thereafter.

Pursuant to the PRC Company Law, 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.

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.

Pursuant to the PRC Company Law, 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.

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.

Pursuant 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 of Directors***

A company shall have a board of directors which shall consist of 5 to 19 members. Members of the board of directors 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 of directors 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 of directors 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 of directors. 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 person 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 his 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 or 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.

Pursuant to the PRC Company Law, the board of directors 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.

### ***Board of Supervisors***

A company shall have a board of supervisors 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 board of supervisors 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 a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors. Directors and senior management shall not act concurrently as supervisors.

Pursuant to the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (中國證監會海外上市部國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函), the chairman of the supervisory board shall be elected by more than two-thirds of the supervisors. Directors and senior management shall not act concurrently as 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.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolutions;
- (iii) when the acts of a director or senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;
- (v) to submit proposals to the shareholders' general meetings;
- (vi) to bring actions against directors and senior management personnel pursuant to the relevant provisions of the PRC Company Law; and
- (vii) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings 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***

Pursuant to the PRC Company Law, a company shall have a general manager who shall be appointed or removed by the board of directors. The general manager, who reports to the board of directors, may exercise his/her powers:

- (i) to manage the production, operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;
- (ii) to arrange for the implementation of the company's annual operation 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 general manager's powers shall also be complied with. The general 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.

Pursuant to the PRC Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of directors of a listed company and other personnel as stipulated in the articles of association.

***Duties of Directors, Supervisors, General Managers and Other Senior Management***

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and shall be obliged to be faithful and diligent towards the Company.

Directors, supervisors and management personnel are prohibited from accepting bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

- (i) misappropriating company funds;
- (ii) depositing company funds into accounts 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 or the board of directors;

- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;
- (vi) accepting 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 all true information and materials to the supervisory board, or if a limited liability company has no board of supervisors, supervisors, without impeding the discharge of duties by the supervisory board or supervisors.

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 board of supervisors institutes 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 its 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 board of supervisors 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, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general manager 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 in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

### ***Finance and Accounting***

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State



Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% 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 competent governmental department to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

#### ***Appointment and Retirement of Auditors***

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board 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. The Special Regulations require that any dividend and other distribution to holders of H Shares shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, a company shall make foreign currency payments to shareholders through receiving agents.

***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 the articles of association. The amendment to articles of association involving content of the 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***

Pursuant to the PRC Company Law, 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 ongoing 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 person 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 following 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 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 report all matters relevant to the creditors rights he has claimed 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 willful 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 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 share certificates and H Share certificates of the overseas-listed foreign shareholders of the PRC is provided for in the Mandatory Provisions, details of which are set out in the articles of association.

***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 as a result of the merger or division shall be registered with the relevant administration authority for industry and commerce.

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 series of regulations that relate to the issue and trading of the 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.

On April 22, 1993, the State Council promulgated 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特別規定). These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The PRC Securities Law took effect on July 1, 1999 and was revised as of August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014, respectively. It was the first national securities law in the PRC that comprehensively regulates activities in the PRC securities market. It is divided into 12 chapters and 240 articles with contents include, 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. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council Securities regulatory authorities to list shares outside the PRC. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the rules and regulations promulgated by the State Council and 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. The PRC Arbitration Law 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 Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, 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 and the PRC Civil Procedure 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 recognition and 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 apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state; and (ii) the New York Convention will only apply to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

An agreement has been reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People's Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR (關於內地與香港特別行政區相互執行仲裁裁決的安排), which became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Pursuant to this arrangement, awards made by PRC arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in China. Where a court of the Mainland finds that enforcement in the Mainland of the ruling made by the Hong Kong arbitral authority will violate public interests of the Mainland, execution of the ruling may be ignored.

#### **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, the Bank is 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 under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

### **Incorporation**

Under Hong Kong Company Law, a company with share capital, shall be incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member's right to transfer shares. A public company's articles of association do not contain such provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The amended PRC Company Law which came into effect on March 1, 2014 has removed the general provision on minimum registered capital, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

### **Share Capital**

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in the Bank's registered capital must be approved by its 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. There is no such restriction on companies incorporated in Hong Kong under Hong Kong law.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and assets transfer procedures must be carried out to ensure no overvaluation or undervaluation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

### **Restrictions on Shareholding and Transfer of Shares**

Under PRC law, the Bank's Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for and traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau or Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. Furthermore, pursuant to the

Several Provisions on the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (《滬港股票市場交易互聯互通機制試點若干規定》), qualified mainland investors acquire specific overseas listed shares through mechanism of the Shanghai-Hong Kong Stock Connect.

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 public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company 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 in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after 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 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 separate 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 representing at least 75% of the total voting rights of holders of shares in the class in question, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

#### **Directors, Senior Management and Supervisors**

The PRC Company Law, unlike Hong Kong Company Law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on interested contracts and specify the circumstances under which a director may receive compensation for loss of office.



**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 obligations and cause damages 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 obligations and cause damages 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 appoint a receiver or manager over the property or business of the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The

PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

**Notice of Shareholders' General Meetings**

Under the PRC Company Law, notice of a shareholders' annual general meeting and an extraordinary shareholders meeting must be given not less than 20 days and 15 days before the meeting, respectively. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must send their writing replies to the company at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice is 21 days in the case of an annual general meeting and 14 days in other cases.

**Quorum for Shareholders' General Meetings**

Under Hong Kong Company 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 the number of voting shares represented by shareholders who wish to attend the meeting fails to reach 50% of the total number of issued shares of the company, 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 Company Law, an ordinary resolution is passed by more than half of the votes and a special resolution is passed by no less than 75% of such votes. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

**Financial Disclosure**

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP. The lower of the after-tax profits of a specific fiscal year stated in the statements prepared based on the above-mentioned principles shall prevail in the allocation of such profits. The company shall publish its financial reports twice in each accounting year. An interim financial report shall be published within 60 days after the end of the first six months of each accounting year, while an annual financial report shall be published within 120 days after the end of each accounting year.

The Special Regulations require that there should not be any contradiction between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

**Information on Directors and Shareholders**

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and 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 (Winding up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved in the general meeting by more than two thirds of the voting rights held by shareholders who attend the 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, directors, supervisors and senior management should be loyal and diligent. Under the Mandatory Provisions, directors, supervisors and senior management are not permitted, without the knowledge and approval of the shareholders' general meeting, to engage in any activities which compete with or damage the interests of their company.

**Closure of Register of Shareholders**

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days 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.

**HONG KONG LISTING RULES**

The Listing Rules provide additional requirements which apply to the Bank 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 the Bank.

**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) Hong Kong Financial Reporting Standards; 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 unless (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 Bank'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 the Bank 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 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 available 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 the Bank's issued share capital;
- the Bank's 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 the Bank since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between class shares);
- copy of the latest annual return filed with the SAIC or other competent PRC authority; and
- for shareholders only, copies of minutes of shareholders' general meetings.

**Receiving Agents**

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

**Statements in Share Certificates**

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and its articles of association;
- agrees with the company, each shareholder, director, supervisor, manager and other senior management and it (acting both for the company and for each director, supervisor, manager and other senior management) agrees 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 the Shareholders as stipulated in the articles of association; and
- an arbitration clause which provides that whenever any differences or claims arise from the contract, the 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 the Bank 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 shall 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 laws 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, the principal objective of which is to provide investors with an overview of our Articles.

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 are available for inspection as mentioned in “Appendix VIII—Documents Delivered to the Registrar of Companies and Available for Inspection”.

Our Articles were adopted by our Shareholders in the Shareholders’ general meeting held on February 7, 2017 and were approved by CBRC Henan Office on March 23, 2017. Our Articles will become effective on the date that our H Shares are listed on the Hong Kong Stock Exchange.

## **DIRECTORS AND OTHER SENIOR MANAGEMENT**

### ***Power to Allot and Issue Shares***

There is no provision in our Articles empowering the Directors to allot and issue shares.

To increase the capital of our Bank, the proposal must be submitted for approval by a special resolution at a Shareholders’ general meeting.

### ***Power to Dispose of the Assets of Our Bank or Any Subsidiary***

For the disposal of any fixed assets by the Board, if the aggregate of the expected value of the fixed assets proposed to be disposed of and the value of the fixed assets which had been disposed of within four (4) months immediately preceding such proposal for disposal exceeds 33% of the fixed assets value shown in the most recent balance sheet reviewed at a Shareholders’ general meeting, the Board shall not dispose of or approve of the disposal of such fixed assets without the approval of the Shareholders. The disposal of fixed assets referred to in this paragraph includes the transfer of interests of certain assets, but excludes the provision of fixed assets as pledges to any guarantees.

Any breach of the above paragraph shall not affect the validity of any transaction entered into by the Bank in disposing of fixed assets.

## **EMOLUMENTS AND COMPENSATION FOR LOSS OF OFFICE**

The Bank shall enter into written contracts with the Directors and the Supervisors regarding remuneration which are subject to the prior approval from the Shareholders’ general meeting. The aforesaid remunerations include:

- (a) remuneration for the Directors, Supervisors or senior management personnel of the Bank;
- (b) remuneration for the Directors, Supervisors or senior management personnel of the subsidiary banks (subsidiary companies) of the Bank;
- (c) remuneration for those providing other services for managing the Bank and its subsidiary banks (subsidiary companies);
- (d) compensation to Directors or Supervisors for loss of their office or upon retirement.

Except for the contracts mentioned above, the Directors and Supervisors shall not initiate litigation against the Bank and claim benefits due to them for the foregoing matters.

The remuneration contracts between the Bank and its Directors or Supervisors shall stipulate that if the Bank is acquired, the Directors and Supervisors of the Bank shall, subject to prior approval from the Shareholders' general meeting, be entitled to compensation or other funds for loss of their positions or upon retirement. The "acquisition of the Bank" mentioned in this paragraph refers to one of the following circumstances:

- (a) a takeover offer made by any person to all Shareholders;
- (b) a takeover offer made by any person with the intent of becoming the controlling shareholder. Please see the meaning of "controlling shareholder" in "—Rights of Minority Shareholders".

If the Directors and Supervisors concerned do not comply with the preceding provisions, any funds received by them shall go to the persons who have accepted the offer mentioned above and sell their shares. The Directors and Supervisors shall bear the expenses arising from the distribution of such amounts proportionally, and such expenses shall not be deducted from the amounts.

#### **LOANS TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

The Bank shall not, directly or indirectly, provide any loan or loan guarantee to the Directors, Supervisors, and senior management personnel of the Bank and of its parent company, nor shall the Bank provide the same to their connected persons.

The preceding provision shall not apply in the following circumstances:

- (a) loans or loan guarantees provided by the Bank to its subsidiary banks (subsidiary companies);
- (b) loans, loan guarantees or other funds provided by the Bank to the Directors, Supervisors, or senior management personnel of the Bank pursuant to their employment contracts which were adopted by the Shareholders' general meeting, so that the foregoing persons can make payments in the interests of the Bank or for the expenses incurred in performing their duties and responsibilities for the Bank;
- (c) loans and loan guarantees provided by the Bank to the relevant Directors, Supervisors, senior management personnel of the Bank and their connected persons, provided that the loans and loan guarantees are provided on normal commercial terms and conditions.

If the Bank provides a loan in breach of the provisions above, regardless of the terms of the loan the person who has received the loan shall repay it immediately.

#### **FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES IN OUR BANK**

The Bank (including its branches and sub-branches) or its subsidiaries (including its affiliates) shall not offer any financial assistance at any time by any means (including by gifts, payments advanced, guarantees, compensations or loans) to purchasers or prospective purchasers who will or who wish to purchase the Bank's shares. The aforementioned purchasers shall include both persons who have directly or indirectly assumed obligations due to purchasing the Bank's shares.

The Bank (including its branches and sub-branches) or its subsidiaries (including its affiliates) shall not offer any financial assistance at any time by any means in order to reduce or relieve the obligations of the aforesaid obligators.

The acts listed below are not prohibited by the preceding paragraph, subject to any prohibitions by the relevant laws, administrative regulations, departmental rules and regulatory documents:

- (a) the financial assistance provided by the Bank is either genuinely for the interests of the Bank and the main purpose of the financial assistance is not to purchase shares of the Bank, or the financial assistance is an incidental part of the Bank's overall plans;
- (b) the lawful distribution of the Bank's assets in the form of dividends;
- (c) the distribution of dividends in the form of shares;
- (d) the reduction of registered capital, repurchase of shares, and adjustment of shareholding structure, etc. in accordance with our Articles;
- (e) the provision of a loan by the Bank within its scope of business and in the ordinary course of business (provided that this does not lead to a reduction in the net assets of the Bank or that if this causes a reduction, the financial assistance is taken from the Bank's distributable profits);
- (f) provision of funds by the Bank for an employee shareholding scheme (provided that this does not lead to a reduction in the net assets of the Bank or that if there causes a reduction, the financial assistance is taken from the Bank's distributable profits).

"Financial assistance" referred to in our Articles for these purposes shall include, without limitation, the following means:

- (a) financial assistance given by gifts;
- (b) financial assistance given by 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), indemnity (other than an indemnity in respect of the Bank's neglect or default) or the release or waiver of any rights;
- (c) the provision of loans or the entrance into any agreement under which the obligations of the Bank are to be fulfilled before the obligations of another party, and a change in the parties to, or the novation of, or the assignment of rights arising under such loans or agreement;
- (d) any other form of financial assistance given by the Bank when the Bank is insolvent, has no net assets, or when its net assets would be reduced to a material extent as a result of such financial assistance.

The "obligations" referred to in our Articles shall include the obligations of an obligor which have arisen by making an agreement (regardless of whether the aforesaid agreement or arrangement is enforceable, or whether such obligations are assumed by the obligor individually or jointly with any other person) or any obligations that arise out of changes made in any other way to the obligor's financial condition.

#### **DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK**

The Directors, any of its associates (as defined under the Hong Kong Listing Rules), Supervisors, President and other senior management personnel of the Bank having any direct or indirect material conflict of interests in any executed or proposed contracts, transactions or arrangements (except the employment contracts between the Bank and its Directors, Supervisors, President and other senior management personnel), regardless of whether such interests are usually subject to the approval or consent of the Board, such persons shall disclose the nature and extent of the interests to the Board as soon as possible.

Unless the Directors, Supervisors, President and other senior management personnel of the Bank with conflicts of interest have disclosed their interests to the Board in accordance with the requirements of the preceding paragraph, and the Board has approved the matter without counting the interested persons into the quorum and without their participation in the vote, the Bank shall have the right to rescind such contracts, transactions or arrangements, except in circumstances where the counterparty is acting in good faith and unaware that the Directors, Supervisors, President and other senior management personnel are in breach of their obligations.

If the connected persons of a Director, Supervisor, President and other senior management personnel of the Bank has any conflict of interests with any contracts, transactions or arrangements, the Director, Supervisor, President and other senior management personnel shall be deemed to have a conflict of interests as well.

Before the Bank considers entering into contracts, transactions or arrangements for the first time, and if the interested Directors, Supervisors, President and other senior management personnel of the Bank have provided a written notice to the Board and board of Supervisors stating that they have a conflict of interests in the contracts, transactions or arrangements which would be entered into by the Bank in the future for the reasons set out in the notice, then the Director, Supervisor, President and other senior management personnel concerned shall be deemed to have made the disclosure as required above to the extent as set out in the notice. The Bank shall make an appropriate insurance arrangement against legal actions that the Directors may be exposed to.

#### **REMUNERATION**

The remuneration of Directors must be approved by Shareholders in a Shareholders' general meeting. Please see "—Emoluments and Compensation for Loss of Office".

#### **APPOINTMENT, REMOVAL AND RETIREMENT**

The Directors of the Bank include executive Directors and non-executive Directors (including independent Directors).

The Board of the Bank shall be composed of nine (9) to fifteen (15) Directors, of which the independent Directors shall account for no less than one third of the total number of Directors and the number of independent Directors shall be no less than three (3). Directors shall be elected or removed from office by Shareholders at a general meeting. The term of office of a Director shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office. The Board shall have one chairman and one vice chairman. The chairman shall be served by the Bank's Directors. The chairman and vice chairman shall be elected by more than half of all Directors.

The Nomination and Remuneration Committee of the Board, Shareholders individually or jointly holding above 3% of the Bank's total shares in issue with voting rights can nominate candidates for Directors to the Board according to the number of Directors to be elected to the extent of the number specified by our Articles; the Nomination and Remuneration Committee of the Board, Shareholders individually or jointly holding above 1% of the Bank's total shares in issue with voting rights can nominate candidates for independent Directors to the Board. The term of service of an independent Director shall be the same as that of other Directors of the Bank and may be re-elected and re-appointed upon the expiration of the term of office, provided that such term of office shall not be more than six years on an accumulative basis.

In principle, the number of directors nominated by the same shareholder and his/her connected person shall not exceed one third of the total members of the Board, unless otherwise stipulated by the national laws.

The qualifications of the Directors and senior management personnel shall be verified by the banking regulatory authorities under the State Council.

No person shall hold the position of Director, Supervisor, President or other senior management personnel of the Bank in one of the following circumstances:

- (a) a person without or with limited capacity for civil conduct;
- (b) a person who has been penalized or sentenced due to corruption, bribery, embezzlement, appropriation of property or the disruption of the socialist market economy, and five (5) years have not elapsed from which the punishment or deprivation of political rights for the crimes committed was carried out;
- (c) a Director, factory Director or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy of such companies or enterprises, and three (3) years have not elapsed from which the liquidation of the company or enterprise was completed;
- (d) a legal representative of companies or enterprises which have had their business licenses revoked and the business of such companies or enterprises were compulsorily closed down due to a violation of laws in which such person was personally liable, and three (3) years have not elapsed from which the business license of the company or enterprise was revoked;
- (e) a person with relatively large amounts of due and outstanding debt;
- (f) a person under investigation by judicial authorities for suspected violations of criminal law and the investigation is still ongoing;
- (g) a person banned from holding leadership positions as stipulated by laws and administrative regulations;
- (h) a non-natural person;
- (i) a person judged by competent authorities as having violated the provisions of securities laws and regulations, the violation involves fraudulent or dishonest acts, and less than five (5) years have elapsed since the ruling;
- (j) circumstances under which a person banned from holding the position of director, supervisor or senior management personnel as stipulated by the law, administrative regulations, departmental rules, regulatory documents and the Hong Kong Listing Rules.

A person whose job qualification being lawfully cancelled by the banking regulatory authorities under the State Council shall not hold the position of Director or senior management personnel of the Bank.

The validity of any act by a Director, President or other senior management personnel made on behalf of the Bank towards a third party acting in good faith shall not be affected by any non-compliance in regulations of that person's position, election procedure or qualifications.

### **CREDIT POWERS**

Our Articles do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- (a) provisions which authorize the Board to formulate proposals on the issue and listing of bonds and other securities issued by the Bank; and

- (b) provisions which provide that the issuance and listing of any class of bonds or other securities of the Bank shall be approved by the Shareholders' general meeting by a special resolution.

**AMENDMENTS TO THE ARTICLES OF OUR BANK**

In any of the following circumstances, our Bank shall amend the Articles:

- (a) if upon amendments to the PRC Company Law, the PRC Commercial Banking Law or relevant laws and administrative regulations, any terms contained in our Articles become inconsistent with the provisions of the amended laws and administrative regulations;
- (b) a change in the Bank causes inconsistency with those contained in our Articles;
- (c) a resolution being passed by the shareholders' general meeting to amend our Articles.

Our Articles may be amended by special resolution of the Shareholders in a Shareholders' general meeting. Any amendments to be made to the Articles pursuant to a resolution of the Shareholders' general meeting shall be subject to the approval of the competent authorities, and shall obtain the approval of the competent authorities; if registration matters are involved, the Bank shall apply for registration of the changes in accordance with the law.

**CHANGE OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES**

If the Bank proposes to change or nullify certain rights of a certain class of Shareholders, this proposal should be passed by a special resolution at the Shareholders' general meeting and passed at the meeting convened according to our Articles for the related class of Shareholders.

The rights of a certain class of Shareholders shall be deemed to be changed or nullified in the following circumstances:

- (a) to increase or reduce in the quantity of the shares of that class, or increase or reduce the quantity of the shares of other class which enjoy the same or more voting rights, distribution rights or other privileges;
- (b) to convert part or whole of the shares of that class into other class(es), convert part or whole of the shares of other class(es) into that class, or grant such conversion rights;
- (c) to nullify or reduce the rights of that class of shares to receive payable dividends or cumulative dividends;
- (d) to reduce or nullify the privileged rights of that class of shares to acquire dividends or obtain distribution of assets during liquidation of the Bank;
- (e) to increase, nullify or reduce the conversion, option, voting, transfer or privileged allotment rights of that class of shares or the rights of such class of shares to obtain securities issued by the Bank;
- (f) to nullify or reduce the rights of that class of shares to receive amounts payable by the Bank in a particular currency;
- (g) to establish new class(es) of shares which enjoy the same or more voting rights, distribution rights or other privileges as compared with that class of shares;
- (h) to restrict the transfer and ownership of that class of shares, or increase the restrictions;
- (i) to grant the share subscription options or share conversion options of that or another class of shares;

- (j) to increase the rights or privileges of other class(es) of shares;
- (k) any restructuring scheme of the Bank that may result in the assumption of disproportionate responsibilities by different classes of Shareholders during the restructuring;
- (l) to revise or nullify the provisions under the “Special Voting Procedure at a Shareholders’ General Meeting for Class Shareholders” in our Articles.

Where issues specified in (b) to (h), (k) to (l) of the preceding provisions are involved, the affected class shareholders, whether or not they are entitled to vote at general meetings originally, shall have the right to vote at class general meetings. However, the Shareholders with conflicts of interests (as defined below) shall have no voting rights at the meeting for such class of Shareholders.

A resolution of the meeting for a certain class of Shareholders shall be adopted by above two-thirds of the voting shares represented by Shareholders of that class present at the meeting.

When convening a meeting for a certain class of Shareholders, the Bank shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders in the relevant class whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting.

The notice of a meeting for a certain class of Shareholders only needs to be delivered to the Shareholders entitled to vote at that meeting.

Unless required otherwise by our Articles, the procedures for convening a meeting for a certain class of Shareholder shall be the same as the procedures for the Shareholders’ general meeting to the extent practical, and the provisions in our Articles relating to the procedure to convene a Shareholders’ general meeting shall apply to the meeting for class Shareholders.

Apart from other classes of Shareholders, the Shareholders of domestic shares and overseas listed foreign shares are deemed to be Shareholders of different classes.

The special voting procedure at a Shareholders’ general meeting for class Shareholders shall not apply for the following cases:

- (a) upon the approval by way of a special resolution passed by a Shareholders’ general meeting, the Bank independently or simultaneously issues domestic shares and/or overseas listed foreign shares every twelve (12) months, provided that the amount of each class of shares intended to be issued is not more than 20% of the issued and outstanding shares of the respective class;
- (b) the Bank’s plan on issuing domestic shares and overseas listed foreign shares at the time of incorporation, which is completed within fifteen (15) months upon the date of approval from the securities regulatory and administrative authorities of the State Council;
- (c) the relevant regulatory authorities such as banking regulatory and administrative authorities and the securities regulatory and administrative authorities of the State Council have given approval for unlisted shares held by the Shareholders of the Bank to be traded in overseas stock exchanges.

For the purposes of the class rights provisions of our Articles, the meaning of “the Shareholders with conflict of interests” is:

- (a) if the Bank has made a repurchase tender offer to all Shareholders in the same proportion in accordance with our Articles or has repurchased its own shares through public transaction on a stock exchange, “Shareholders with conflicts of interests” shall mean the “controlling Shareholders” defined in our Articles;



- (b) if the Bank has repurchased shares under an off-market agreement in accordance with our Articles, “Shareholders with conflicts of interests” shall mean Shareholders who are connected with the aforementioned agreement;
- (c) under a restructuring scheme of the Bank, “Shareholders with conflicts of interests” shall mean Shareholders who assume liability in a lower proportion than other Shareholders of the same class, or those who own different interests as compared with other Shareholders of the same class.

### **RESOLUTIONS—MAJORITY REQUIRED**

The resolutions of a Shareholders’ general meeting shall either be classified as ordinary resolutions or special resolutions.

Ordinary resolutions shall be approved by a simple majority of voting rights held by the Shareholders (including their proxies) attending the meeting.

Special resolutions shall be approved by above two-thirds of voting rights held by the Shareholders (including their proxies) attending the meeting.

### **VOTING RIGHTS**

A Shareholder (including his/her proxy) shall exercise his/her voting rights based on the number of shares with voting rights held. Each share shall have one (1) vote. However, Shares held by the Bank have no voting rights, and will not be counted toward the total voting shares present in the shareholders’ general meeting.

Voting at a Shareholders’ general meeting shall be taken by way of registered poll.

On a poll taken at a meeting, a Shareholder (including his/her proxies) entitled to above two (2) votes need not cast all the votes towards the same stance.

### **REQUIREMENT FOR ANNUAL GENERAL MEETINGS**

The annual general meeting shall be held once a year within six (6) months after the previous financial year end.

### **ACCOUNTS AND AUDIT**

The Bank shall formulate its financial accounting system in accordance with the laws, administrative regulations and the provisions of relevant regulatory authorities in the PRC.

The Board of our Bank has an Audit Committee which is responsible to the Board. The number of members of the Audit Committee shall be no less than three, and among which more than half shall be independent Directors. The Audit Committee is chaired by one of our independent Directors. All members of the Audit Committee shall be non-executive Directors, with one member having the appropriate qualifications as provided for in the Hong Kong Listing Rules or an independent Director having the appropriate accounting or relevant financial expertise at least. The Audit Committee has the responsibilities as specified in our Articles.

The Bank shall prepare its financial statements in accordance with PRC accounting standards and regulations; as well as in accordance with international accounting standards or the accounting standards required by securities regulatory authorities of the locality in which the Bank’s shares are listed. If there are any material differences between the financial statements prepared in accordance with the two accounting standards, such differences shall be stated in the notes to the financial statements. When distributing the after-tax profits for the relevant financial year, the Bank shall adopt the one with the lower after-tax profits out of the aforesaid two financial statements.

Our Bank shall publish its financial report twice each financial year, i.e. publish the interim financial report within 60 days after the end of the first six months of each financial year and publish its annual financial report within 120 days after the end of each financial year, and submit them to the banking regulatory authorities under the State Council and the People's Bank of China in a timely manner. The said financial accounting reports shall be prepared according to the relevant laws, administrative regulations and departmental rules.

The financial accounting statements of our Bank shall be made available at the principal place of business of the Bank 20 days or earlier before the convening of the annual general meeting for inspection by shareholders. Each Shareholder of our Bank shall be entitled to obtain the financial reports mentioned in our Articles.

Except as otherwise provided in our Articles, the Bank shall send the aforesaid report or report of the Board along with the balance sheet and income statement or income and expenditure statement to each Shareholder of overseas listed shares by pre-paid post at least twenty-one (21) days prior to the convening of the general meeting of Shareholders. The address of the recipients shall be the address registered in the register of Shareholders. The Bank may also send or dispatch the aforesaid reports to each holder of overseas listed shares through the Bank's website or the website of the Hong Kong Stock Exchange or other websites provided for from time to time according to the Hong Kong Listing Rules, provided no laws, administrative regulations or listing rules of the places where the shares of the Bank are listed are violated. If the securities regulators in the place where the Shares are listed have regulations otherwise, such regulations shall prevail.

#### **NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT**

There are two types of Shareholders' general meetings: annual general meetings and extraordinary general meetings.

An extraordinary general meeting shall be convened within two (2) months from the date of occurrence of any of the following events:

- (a) the number of Directors is less than the minimum number required by the PRC Company Law or less than two-thirds of the number stipulated in our Articles;
- (b) the outstanding loss of the Bank is at least one-third of the Bank's total paid-up share capital;
- (c) shareholders who individually or jointly hold above 10% of the voting shares of the Bank (number of shares held shall be calculated as of the date of request in writing made by the Shareholders) have requested to convene the meeting in writing;
- (d) the Board deems it necessary to convene the meeting;
- (e) the Board of Supervisors proposes to convene the meeting;
- (f) above half of the independent Directors propose to the Board to convene the meeting (if there are only two independent Directors, then the two independent Directors unanimously propose to convene);
- (g) any other circumstances as stipulated by the laws, administrative regulations, departmental rule and our Articles.

When the Bank is to convene a general meeting, the conveners shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who wish to attend the Shareholders' general meeting shall provide a written reply of attendance to the Bank twenty (20) days before the general meeting is convened.

The Bank shall calculate the proportion of voting shares held by Shareholders who wish to attend the meeting based on the written replies received twenty (20) days before the Shareholders' general meeting that is convened by the Bank. Where the proportion of voting shares held by Shareholders who wish to attend the meeting reaches above half of the total voting shares of the Bank, the Bank will convene the Shareholders' general meeting. If this threshold is not met, the Bank shall inform the Shareholders within five (5) days via an announcement stipulating the matters to be considered and the venue, date and time of the meeting. Once this announcement is made, the Bank may then proceed to convene the Shareholders' general meeting.

Notice of Shareholders' general meeting shall be made in writing and contain the following contents:

- (a) the venue, date and time of the meeting;
- (b) the matters to be considered at the meeting;
- (c) all necessary information and explanation to enable Shareholders to make informed decisions on the matters to be discussed. This means that when the following matters, which shall include, but shall not be limited to: any merger, share repurchase, share capital reorganization or any proposals relating to change in the structure of the Bank are involved, the detailed terms of the proposed transaction, copies of the proposed agreement (if any) and detailed explanation as to the cause and effect of such a proposal transaction shall be provided;
- (d) if any of the Directors, Supervisors, President or other senior management personnel have material interest in the matters to be discussed, they shall disclose the nature and extent of such interest; and if the effects of the matters to be discussed have a different effect on a Director, Supervisor, President or other senior management personnel as Shareholders compared to other Shareholders of that same class, they shall explain this difference;
- (e) the full text of any proposed special resolution to be voted on at the meeting;
- (f) a prominent statement stating that a Shareholder entitled to attend and vote at the meeting, is entitled to appoint above one proxy to attend and vote on his/her behalf, and such proxy need not be a Shareholder;
- (g) the shareholding registration date of the Shareholders who are entitled to attend the meeting;
- (h) the time and address for lodging the proxy forms of the relevant meeting;
- (i) the name and phone number of the contact person of the meeting.

Unless otherwise stipulated by the laws, regulations, the regulations of the relevant regulatory authorities as well as our Articles, the notice of a Shareholders' general meeting shall be delivered by hand or prepaid mail to all Shareholders (regardless of whether they have voting rights at the Shareholders' general meeting). The address of the recipients shall be the address registered in the register of Shareholders. For holders of domestic shares, the notice of a Shareholders' general meeting may be in the form of an announcement.

The aforesaid announcement shall be published in one or more newspapers specified by the securities regulatory and administrative authorities under the State Council between the forty-five (45) to fifty (50) day interval prior to the date the meeting is convened. All holders of domestic shares shall be deemed as having been notified of the forthcoming Shareholders' general meeting once the announcement is published.

Subject to the laws, administrative regulations, departmental rules, regulatory documents, and the regulations or listing rules of the places where the shares of the Bank are listed and the relevant regulations of the relevant securities regulators, the Bank may also send or dispatch the aforesaid notices of general meeting to the holders of H shares through the websites of the Bank and the Hong Kong Stock Exchange, instead of sending or dispatching the same by personal delivery or prepaid mail.

The Shareholders' general meeting shall be an organ of power of the Bank. It shall exercise the following powers in accordance with the law:

- (a) to decide on the business policies and investment plans of the Bank;
- (b) to elect and replace Directors and to decide on the remuneration of the relevant Directors;
- (c) to elect and replace Supervisors which are not appointed as representatives of the employees and to decide on the remuneration of the relevant Supervisors;
- (d) to examine and approve reports made by the Board;
- (e) to examine and approve reports made by the Board of Supervisors;
- (f) to examine and approve the Bank's proposed annual financial budget and final accounts;
- (g) to examine and approve the Bank's plans for profit distribution and tax loss carry forward;
- (h) to adopt resolutions concerning the increase or reduction in the Bank's registered capital, the issuance of bonds or other securities and the listing;
- (i) to adopt resolutions on repurchase of the Bank's shares or the merger, division, change in corporate form of the Bank, dissolution, liquidation and other matters;
- (j) to amend our Articles;
- (k) to decide on the engagement, dismissal or discontinuation of the appointment of the accounting firm;
- (l) to examine proposals raised by the Shareholders who individually or jointly hold above 3% of the total issued and outstanding voting shares of the Bank;
- (m) to examine matters in relation to major equity investments and disposals with single amount accounting for more than 10% (exclusive) of the Bank's latest audited net assets;
- (n) to examine matters in relation to major asset acquisition and disposals with single amount accounting for more than 10% (exclusive) of the Bank's latest audited net assets;
- (o) to examine and approve the related (connected) transactions which require approval by the Shareholders' general meeting as stipulated by the law, administrative regulations, departmental rules, regulatory documents, regulations of securities regulatory authorities of the locality where the Bank's shares are listed;
- (p) to examine long and medium term incentive plans, such as the stock incentive and employee stock ownership plans;
- (q) to examine other issues which should be decided by the Shareholders' general meeting as stipulated by the laws, administrative regulations, departmental rules as well as our Articles.

The following matters shall be approved by special resolutions at a general meeting:

- (a) an increase or reduction of the registered capital of the Bank;
- (b) the issuance of any class of shares, bonds and other securities by the Bank and the listing;
- (c) the division, merger, change in the corporate form, dissolution and liquidation of the Bank;
- (d) amendments to our Articles;
- (e) long and medium term incentive plans, such as the stock incentive and employee stock ownership plans;
- (f) any other matters as required by the laws, administrative regulations or our Articles, and other matters that, resolved by the Shareholders' general meeting by an ordinary resolution, may have a material effect on the Bank and should therefore be adopted by a special resolution.

The following matters shall be approved by ordinary resolutions at a general meeting:

- (a) work reports of the Board and the Board of Supervisors;
- (b) profit distribution plans and loss recovery plans proposed by the Board;
- (c) appointment and dismissal of the members of the Board and members of the Board of Supervisors and their remuneration;
- (d) the annual budget and final accounts, the balance sheet, statements of profits and other financial statements of the Bank;
- (e) annual profit distribution plans of the Bank;
- (f) appointment or dismissal of the accounting firm;
- (g) matters other than those required by the laws, administrative regulations or our Articles to be approved by special resolutions.

#### **TRANSFER OF SHARES**

Except as otherwise provided for in the laws and regulations, the Shareholders of the Bank shall not withdraw their Shares. Unless otherwise specified by the relevant laws, administrative regulations and the regulations of the securities regulatory authorities in the locality in which the shares of the Bank are listed, the fully paid shares of the Bank may be transferred legally and freely without any lien attached. Registration shall be made in the share registrar authorized by the Bank for the transfer of the shares of the Bank.

All fully paid H shares may be freely transferred in accordance with our Articles. However, the Board may refuse to recognize the documents for transfer without stating any reason unless the conditions stipulated below are met:

- (a) fee prescribed by the Hong Kong Stock Exchange in the Hong Kong Listing Rules has been paid to the Bank, and all transfer documents and other documents which relate to or may affect the title of any shares have been registered;
- (b) transfer documents are only in relation to H shares;
- (c) stamp duty (as stipulated by Hong Kong law) which is payable for the transfer documents has been duly paid;

- (d) relevant share certificate(s) and any other evidence which the Board may reasonably require to show that the transferor has the right to transfer the shares have been provided;
- (e) where the shares are intended to be transferred to joint holders, the number of such joint Shareholders is not more than four (4); and
- (f) shares are free and clear of any lien of the Bank.

Any changes or corrections of any part of the register of Shareholders shall be effected in accordance with the laws of the locality in which that part of the register of Shareholders is kept.

The Bank shall comply with the relevant regulations of the banking regulatory and administrative authorities under the State Council or other relevant administrative authorities in transferring its shares.

The directors, supervisors and senior management of the Bank shall notify the Bank their holding of shares in the Bank and changes of their holdings. The shares transferred in any year during their tenures shall not exceed 25% of the total number of the shares in the Bank held by them. These individuals shall not transfer the shares in the Bank held by them within six months upon the completion of their terms of office unless so demanded by a court.

Shares issued prior to the Bank's initial public offering are not transferable within one year from the date on which the Bank's shares are listed on the stock exchange. Where the relevant regulations of the securities regulatory authorities of the place where the shares of the Bank are listed provide otherwise in respect of any transfer of any overseas listed shares, such regulations shall apply.

No changes shall be made to the register of shareholders as a result of a transfer of shares either within 30 days prior to the date of a general meeting, or within 5 days before the benchmark date set by the Bank for the purpose of distribution of dividends. If the securities regulatory authorities of the place where shares of the Bank are listed provide otherwise, such provisions shall prevail.

### **Pledge of Shares**

The Bank does not accept shares of the Bank as the subject of pledges.

If the Shareholders pledge their shares in the Bank to provide guarantees for themselves or others, they shall comply strictly with the laws, regulations and the requirements of regulatory authorities, and inform the Board of the Bank in advance.

If Shareholders who are entitled to nominate candidates of the Directors and Supervisors of the Bank or Shareholder who can directly or indirectly, or jointly hold or control above 2% of the shares or voting rights of the Bank pledge the shares of the bank, they shall make an application to the Board for filing in advance to state basic information such as reason for pledge, number of shares, duration of the pledge and the pledgee. 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 at which such proposal is considered. Upon completion of shares pledge registration, Shareholders shall in a timely manner provide the Bank with relevant information regarding the pledge of shares in line with the Bank's risk management and information disclosure requirement.

Filing shall not be made if the Board determines that it has material adverse effect on the stability of the Bank's shareholding, corporate governance, risk and control on related (connected) transactions.

Shareholders shall not pledge the Bank's shares if the outstanding balance of the loans they have borrowed from the Bank exceeds the audited net book value of the Bank's shares held by them in the previous year.

When the shares pledged by a Shareholder reaches or exceeds 50% of its holding of shares in the Bank, the voting rights of such Shareholder at general meetings and the voting rights of Directors appointed by such Shareholder at meetings of the Board shall be restricted.

**POWER OF OUR BANK TO REPURCHASE OUR OWN SHARES**

The Bank may, in accordance with the provisions under laws, administrative regulations, departmental rules and our Articles, repurchase its issued shares in the following circumstances:

- (a) reduction of the Bank's registered capital;
- (b) merging with another company holding shares in the Bank;
- (c) granting of shares to employees of the Bank as reward;
- (d) requests for the Bank to repurchase its own shares from Shareholders who have voted against the resolutions passed at a Shareholders' general meeting on the merger or separation of the Bank; or
- (e) other circumstances permitted by applicable laws and permitted by the relevant competent authorities of the State.

Except for the circumstances set out above, the Bank shall not be engaged in any activities of buying and selling its Shares.

Approval shall be obtained at a general meeting when the Bank is to repurchase its own shares because of the circumstances set out in (a) to (c) above. After the Bank has repurchased its own shares in accordance with the preceding provision, the shares so repurchased shall be cancelled within ten days from the date of purchase (under the circumstances set out in (a)), or shall be transferred or cancelled within six months (under the circumstances set out in (b) and (d)).

The shares of the Bank repurchased by the Bank under the circumstances set out in (c) above shall not exceed 5% of the total issued shares of the Bank. The funds for repurchase of such shares shall be paid out of the Bank's profits after tax, and the acquired shares shall be transferred to the Bank's employees within one year.

With the approval of competent state authorities for repurchasing its Shares, the Bank may conduct the repurchase in one of the following manners:

- (a) to make an offer of repurchase to all of its Shareholders in the same proportion;
- (b) to repurchase Shares through public trading on a stock exchange;
- (c) to repurchase through an off-market agreement;
- (d) by other means as permitted by the laws, administrative regulations and the relevant competent authorities.

A prior approval shall be obtained from a general meeting in respect of any share repurchase by the Bank through an off-market agreement instead of on a securities exchange in accordance with the provisions of our Articles. After the general meeting has given its approval in the same way, the Bank may rescind or alter any contracts entered into in the said manner or waive any rights under such contracts.

The contract to repurchase shares as referred to in the paragraph includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.

Bank shall not assign a contract for repurchasing its shares or any of its rights thereunder.

Where the Bank has the right to repurchase redeemable shares by means other than repurchases through the market or by tender, the repurchase price shall be limited to a maximum price; if repurchases are made by tender, an invitation for tenders shall be made to all shareholders alike.

Unless the Bank is undergoing liquidation, it shall comply with the following requirements with respect to a repurchase of its issued shares:

- (a) for repurchases of shares by the Bank at their par value, payment shall be made from the book balance of its distributable profits or from the proceeds of a new issuance of shares for that purpose;
- (b) where the Bank repurchases its shares at a premium to its par value, payment up to the par value shall be made from the book balance of its distributable profits or from the proceeds of a new issuance of shares for that purpose. Payment of the portion which is in excess of the par value shall be made as follows: (i) If the shares being repurchased are issued at par value, payment shall be made from the book balance of its distributable profits; (ii) If the shares being repurchased are issued at a premium to its par value, payment shall be made from the book balance of its distributable profits or from the proceeds of the new issuance of shares for that purpose. However, the amount deducted from the proceeds of the new issuance of shares shall not exceed the aggregate amount of the premium received by the Bank from the issuance of the shares so repurchased, nor shall it exceed the amount in the Bank's premium account or capital reserve fund account (including premium on the new issue) at the time of such repurchase;
- (c) the Bank shall make the following payments from the Bank's distributable profits: (i) acquisition of the rights to repurchase its own shares; (ii) variation of any contracts for the repurchase of its shares; (iii) release from its obligations under any repurchase contracts;
- (d) after the aggregate par value of the cancelled shares is deducted from the Bank's registered capital in accordance with the relevant provisions, the amount deducted from the distributable profits used for the repurchase of the shares at par value shall be credited to the Bank's premium account or its capital reserve fund account.

If there are applicable provision(s) to the contrary regarding the financial treatment of the aforementioned share repurchases in the laws, administrative regulations and relevant regulations of the relevant regulatory authorities, such provision(s) shall prevail.

#### **RIGHT OF OUR SUBSIDIARIES TO OWN SHARES IN OUR BANK**

There are no provisions in our Articles preventing a subsidiary of our Bank from owning any of our shares.

#### **DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION**

The Bank may distribute dividends in cash or by Shares.

The Bank shall provide reasonable investment returns to investors by distributing profits and its profit distribution policy shall be sustainable and stable. The Bank shall make dividends distribution in profitmaking years. The total profits distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profits of the Bank for the last three years, when making profits distribution. Distribution of scrip dividends in form of shares shall be approved by general meetings and subject to approval by the banking regulatory authority of the State Council.



Our Bank shall appoint for Shareholders of overseas listed shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by the Bank in respect of the overseas listed shares. The recipient agent appointed by the Bank shall comply with the laws of the locality in which the Bank's shares are listed or the relevant requirements of the stock exchange where the Bank's shares are listed. The recipient agent appointed by the Bank for Shareholders of H-shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

### **PROXIES**

Any Shareholder entitled to attend and having voting rights at a Shareholders' general meeting shall be entitled to appoint one or more persons (these persons need not be Shareholders) as proxies to attend and vote on their behalf. A proxy may exercise the following powers at a Shareholders' general meeting:

- (a) the same right of speech as the Shareholder at the meeting;
- (b) have authority to demand or join other Shareholders in demanding a poll;
- (c) have the right to vote by hand or on a poll, but when more than one proxy has been appointed, the proxies only have the right to vote on a poll.

Shareholders shall appoint their proxies in writing. The power of attorney shall be placed at the Bank's domicile or at any other place designated in the notice of Shareholders' general meeting, and at least twenty-four (24) hours prior to either the convening of the relevant meeting in which the resolutions are to be voted on or the designated voting time. If the power of attorney is signed by a person authorized by the appointing Shareholder instead of the appointing Shareholder himself/herself, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents shall, together with the proxy form authorizing the proxy to vote, be placed at the Bank's domicile or any other place designated in the notice of Shareholders' general meeting.

Where the shareholder is a legal person, the proxy form should be executed under its common seal or under the hand of its legal representative, director or an attorney duly authorised in writing to sign the same. A corporate shareholder shall be represented by its legal representative or proxies authorized by the resolutions of the Board and other decision-making bodies to attend the general meeting of the Bank. The legal representative of a corporate shareholder may appoint a proxy to attend the meeting.

If the appointing Shareholder has passed away, lost his/her ability to act, withdrawn the authorization or has transferred all of his/her shares prior to voting, as long as the Bank has not received any written notice regarding these matters before the commencement of the relevant meeting, the vote cast by the proxy in accordance with the proxy form shall remain valid.

### **CALLS ON SHARES AND FORFEITURE OF SHARES**

Our Bank shall have the right to cease delivering dividend notice to the Shareholders of overseas listed shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly.

Our Bank shall have the right to sell the shares of the Shareholders of overseas listed shares through the methods the Board deems appropriate and subject to the following conditions: (a) the Bank has distributed dividends on such shares at least three (3) times in a period of twelve (12) years and

the dividends are not claimed by anyone during that period; (b) after the expiration of the twelve-year period, the Bank makes a public announcement in one or more newspapers in the place of listing, stating its intention to sell such shares and notifies the stock exchange of the locality in which the Bank's shares are listed.

**RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)**

The Shareholders of ordinary Shares of our Bank shall enjoy the following rights:

- (a) to receive dividends and other kinds of distributions as determined by the number of shares held by them;
- (b) to request, convene, preside over, attend or appoint a proxy to general meetings according to laws, and to exercise corresponding voting rights based on the number of the Shares held by him;
- (c) to supervise the business operations of the Bank, and to make suggestions and enquiries accordingly;
- (d) to transfer, bestow or pledge or dispose otherwise of shares held by them in accordance with the laws, administrative regulations, relevant requirements of the securities regulatory authorities of the place where the Bank's shares are listed and the regulations of our Articles;
- (e) to obtain relevant information in accordance with the laws, administrative regulations, departmental rules, regulatory documents, the relevant provisions stipulated by the securities regulatory authorities in the locality in which the shares of the Bank are listed and our Articles, including:
  - (i) to obtain a copy of our Articles after paying the costs and expenses incurred; and
  - (ii) have the right to inspect, free of charge, and to photocopy, after paying a reasonable fee, the following documents:
    - all parts of the register of Shareholders;
    - the personal information of the Directors, Supervisors, president and other senior management personnel of our Bank;
    - status of the Bank's share capital;
    - reports on the aggregate par value, number of shares, and highest and lowest prices of each class of shares in relation to any repurchase by the Bank of its own shares since the last financial year, as well as all the expenses paid by the Bank in relation to such repurchases;
    - minutes of the Shareholders' general meetings;
    - the special resolutions of our Bank;
    - the latest audited financial statements, Directors' reports, auditors' report and report of the Bank's Board of Supervisors;
    - a copy of the latest annual report/annual return already submitted to the State Administration for Industry and Commerce of PRC or other competent bodies.
- (f) to participate in the distribution of the remaining assets of the Bank based on the number of shares held in the event of the Bank's dissolution or liquidation;

- (g) to demand the Bank to acquire their shares (for Shareholders who disagree with the resolutions adopted at a Shareholders' general meeting in relation to the merger or division of the Bank); and
- (h) to have other rights conferred in accordance with the laws, administrative regulations, departmental rules and our Articles.

#### **QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS**

When the Bank is to convene a general meeting, the conveners shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who wish to attend the Shareholders' general meeting shall provide a written reply of attendance to the Bank twenty (20) days before the general meeting is convened. The Bank shall calculate the proportion of voting shares held by Shareholders who wish to attend the meeting based on the written replies received twenty (20) days before the shareholders' general meeting that is convened by the Bank. Where the proportion of voting shares held by Shareholders who wish to attend the meeting reaches above half of the total voting shares of the Bank, the Bank will convene the Shareholders' general meeting. If this threshold is not met, the Bank shall inform the Shareholders within five (5) days via an announcement stipulating the matters to be considered and the venue, date and time of the meeting. Once this announcement is made, the Bank may then proceed to convene the Shareholders' general meeting.

When convening a meeting for a certain class of Shareholders, the Bank shall issue a written notice, forty-five (45) days prior to the date of the meeting, to all Shareholders in the relevant class whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who intend to attend the meeting shall deliver a written response to the Bank twenty (20) days before the meeting is convened. The Bank may convene a meeting for a certain class of Shareholders if the number of Shareholders intending to attend the meeting represent above half of the total number of shares with voting rights in that class. If this requirement is not met, the Bank shall, within five (5) days, issue another announcement informing the Shareholders of the matters to be considered at the meeting and the date and venue of the meeting. Once this announcement is made, the Bank may convene the meeting for that class of Shareholders.

#### **RIGHTS OF MINORITY SHAREHOLDERS**

In addition to the obligations required under the laws, administrative regulations or the listing rules of a stock exchange located in the locality in which the shares of the Bank are listed, when exercising their rights as a Shareholder, controlling shareholders shall not exercise their voting rights and make decisions on the following issues as these issues are detrimental to the interests of all or some of the Shareholders:

- (a) relieving a Director or Supervisor of their responsibility to act in good faith and in the best interests of the Bank;
- (b) approving a Director or a Supervisor in depriving the Bank of its assets in any form, including but not limited to any business opportunities that are advantageous to the Bank, regardless of whether the deprivation is made for the Director, or Supervisor's benefit or for the benefit of others; or

- (c) approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving other Shareholders of their personal interests, including but not limited to any distribution rights and voting rights, unless the deprivation is made pursuant to a Bank restructuring submitted to and adopted at the Shareholders' general meeting in accordance with our Articles.

The "controlling shareholder(s)" shall refer to the shareholder(s) satisfying any of the following conditions:

- (a) the shareholder may elect more than half of the Directors when acting alone or in concert with others;
- (b) the shareholder may exercise or control the exercise of above 30% (inclusive) of the total voting shares of the Bank when acting alone or in concert with others;
- (c) the shareholder holds above 30% (inclusive) of issued and outstanding shares of the Bank when acting alone or in concert with others; or
- (d) the shareholder may de facto control the Bank in any other manner when acting alone or in concert with others.

#### **PROCEDURES ON LIQUIDATION**

The Bank shall be dissolved and liquidated according to laws in any of the following circumstances:

- (a) if the Shareholders' general meeting resolves to do so;
- (b) if a dissolution is necessary as a result of a merger or division of the Bank;
- (c) the Bank is declared bankrupt due to its failure to repay debts due;
- (d) if the business license of the Bank is revoked or if it is ordered to close down its business or if its business license is canceled in accordance with the laws;
- (e) where the operation and management of the Bank falls into serious difficulties and its continued existence would cause material losses to Shareholders, the Shareholders holding above 10% of the total voting rights of the Bank may apply to the people's court to dissolve the Bank if there are no other solutions.

If the Board decides that the Bank shall be liquidated (except for liquidation resulting from the Bank's declaration of bankruptcy), it shall state in the notice of Shareholders' general meeting convened for such purpose that the Board have conducted a comprehensive investigation into the situation of the Bank and believes that the Bank is able to pay off all its debts within twelve months following the commencement of the liquidation.

After the Shareholders' general meeting adopts a resolution in favor of the liquidation, and after the liquidation committee is established, the functions and powers of the Board of the Bank shall be terminated immediately. Our Bank shall subsist in the course of liquidation but shall not conduct any business operations unrelated to liquidation.

The liquidation committee shall follow the instructions of the shareholders' general meetings and shall report to the Shareholders' general meeting at least once a year on the income and expenditure of the liquidation committee, the business of the Bank and the progress of the liquidation, and shall make a final report to the Shareholders' general meeting at the end of the liquidation.

**OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS*****General Provisions***

After consideration and approval by the Shareholders' general meeting and approval by the banking regulatory and administrative authorities under the State Council, our Articles shall become effective from the date of public offering of the H Shares of the Bank on the Hong Kong Stock Exchange. From the date on which it becomes effective, our Articles shall become a legally binding document that regulates the organization and acts of the Bank, as well as the rights and obligations between the Bank and its Shareholders, and amongst the Shareholders themselves.

The Bank may increase its capital to meet its operation and development needs subject to approval in accordance with relevant provisions of our Articles. The Bank may increase its capital by the following ways:

- (a) public offering of shares;
- (b) non-public offering of shares;
- (c) placing new shares to existing Shareholders;
- (d) distributing new shares to existing Shareholders;
- (e) transferring reserve funds to increase share capital;
- (f) other methods required by applicable laws or permitted by relevant competent authorities of the State.

The Bank's increase of capital by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws and administrative regulations after being approved according to our Articles.

Shareholder of ordinary Shares of our Bank shall have the following obligations:

- (a) to abide by the laws, administrative regulations and our Articles;
- (b) to contribute to the share capital as determined by the number of shares subscribed by them and the prescribed method of capital contribution;
- (c) not to withdraw their contributed share capital except in circumstances allowed by the laws and regulations;
- (d) to report the Board in a timely, complete and truthful manner regarding the particulars of its related enterprises, its related party relationship with other Shareholders and its shareholdings in other commercial banks;
- (e) not to abuse their rights in harming the interests of the Bank and any other Shareholders; not to abuse the Bank's status as an independent, separate legal entity and the limited liability of Shareholders to harm the interests of the Bank's creditors. If a Shareholder of the Bank abuses their rights and causes loss to the Bank or other Shareholders it will be held liable for compensation in accordance with the law. If a Shareholder abuses the Bank's status as an independent, separate legal entity and evades the repayment of debts, resulting in material damage to the interests of the Bank's creditors, that Shareholder will be jointly and severally liable for the debts of the Bank;

- (f) Shareholders shall safeguard the interests of the Bank, and the Bank shall not grant favorable terms of facilities to its shareholders over other similar borrowers. The voting right of a shareholder of the Bank at its shareholders' general meetings and that of its designated director(s) at the meetings of the Board of Directors shall be restricted during the period in which the facilities granted by the Bank to that shareholder remains overdue and outstanding;
- (g) Shareholders shall exercise their rights as capital contributors strictly in compliance with the laws, regulations and the Articles. They shall not seek inappropriate interest, interfere with the decision-making right, the right of management and other rights of the Board of Directors and senior management in accordance with our Articles, bypass the Board of Directors and senior management to directly intervene the operations and management of the Bank, and damage the interests of the Bank and the legitimate rights and interests of other stakeholders;
- (h) Shareholders shall support the reasonable capital plans formulated by the Board of Directors to enable the Bank to meet regulatory capital requirements constantly;
- (i) When the Bank's capital fails to comply with the regulatory requirements, a capital replenishment plan shall be made to enable the capital adequacy ratio to satisfy the regulatory requirements within the time framework, and other measures to replenish capital such as increase of core capital shall be taken. The major shareholders shall not hinder other shareholders from replenishing the capital of the Bank or new eligible shareholders from participating;
- (j) to assume other obligations required by the laws, administrative regulations and our Articles.

Shareholders shall not be liable for making any additional contribution to the share capital of the Bank other than according to the terms agreed by the subscriber of the shares at the time of subscription.

#### ***Directors' Qualification Shares***

Directors of the Bank shall be a natural person and is not required to hold any shares of the Bank.

#### **BOARD OF DIRECTORS**

The Board of Directors shall be accountable to the shareholders' general meeting and shall exercise the following functions and powers:

- (a) convening shareholders' general meetings and reporting its performance at the general meetings;
- (b) implementing resolutions of the shareholders' general meetings;
- (c) deciding on development strategies, operational plans and investment programs of the Bank;
- (d) working out annual financial budget plans and final account plans of the Bank;
- (e) formulating profit distribution plans and plans for recovery of losses of the Bank;
- (f) formulating proposals for increases in or reductions of registered share capital, issuance of bonds or other securities and listing plans of the Bank;
- (g) formulating proposals for repurchase of the Bank's shares, merger, separation, change of the nature of the Company and dissolution or liquidation;

- (h) within the scope of authority of the shareholders' general meeting or within the powers prescribed by our Articles, considering matters in relation to major equity investment and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
- (i) within the scope of authority of the shareholders' general meeting or within the powers prescribed by our Articles, considering matters in relation to major asset acquisition and disposal with a single amount representing more than five percent (exclusive) and less than ten percent (inclusive) of the most recent audited net asset of the Bank;
- (j) deciding on the establishment of the internal management structure of the Bank;
- (k) appointing or removing senior management, including the president and the secretary of the Board of Directors of the Bank; appointing or removing senior management, including vice presidents, assistants to the president and finance officers of the Bank, based on the recommendations of the president; and deciding on matters relating to their emoluments and awards or punishment;
- (l) establishing the basic management system of the Bank;
- (m) formulating proposals for any amendment to our Articles;
- (n) managing the disclosure of information of the Bank;
- (o) proposing the appointment or replacement of accounting firms to the shareholders' general meetings for the auditing of the Bank;
- (p) reviewing working reports of the president of the Bank and examining the performance of the president;
- (q) formulating capital replenishment plans;
- (r) formulating medium and long term incentive plans, such as equity incentive plans and employee stock ownership plans;
- (s) the Board of Directors shall establish a supervisory system to ensure that the management will formulate a code of conduct and working principles for the management staff and the business personnel at all levels and that the regulatory documents will specifically require employees at all levels promptly report any possible conflict of interests, provide detailed rules and establish corresponding mechanism;
- (t) the Board of Directors shall establish a reporting system to require the senior management to report operational issues of the Bank to the Board of Directors regularly. The following items shall be regulated under this system: (i) the contents and the basic standard of the information reported to the Board of Directors; (ii) the frequency of the report; (iii) the form of the report; (iv) the responsible bodies of the report and the responsibilities for delay or incompleteness of the report; (v) the confidentiality of the report;
- (u) exercising any other functions and powers prescribed by the laws, administrative regulations, departmental rules and our Articles and authorized by the shareholders' general meetings.

The Board of Directors shall hold at least four regular meetings annually, and the board meeting shall be convened by the chairman of the Board. Notices of board meeting shall be sent to all directors and supervisors in writing at least fourteen days before the date of the meeting. The meeting documents shall be sent to all directors and supervisors five days before the date of the meeting.

A meeting of the Board of Directors shall only be held if it has a quorum of more than one half of the directors. The board meeting can be convened in the form of a physical meeting or in the form of written resolutions. Resolutions adopted at the board meeting must be approved by more than one half of the directors.

### **BOARD OF SUPERVISORS**

Our Bank shall have a Board of Supervisors which shall be composed of five (5) to thirteen (13) Supervisors, not less than two (2) of which shall be the external Supervisors. Employee representative Supervisors and external Supervisors shall not be less than one-third of the total number of members of the Board of Supervisors. The Board of Supervisors shall have one (1) chairman and one (1) vice chairman, and their appointment and removal of the chairman shall be made with a resolution passed by above two-thirds of the all members of the Board of Supervisors.

The term of office of the Supervisors shall be three (3) years. Shareholder representatives acting as supervisors and external supervisors shall be elected, removed or replaced by Shareholders' general meeting. Employee representatives acting as supervisors shall be elected, removed or replaced by employee representative meeting, general employee meeting or other democratic procedures of the Bank.

In principle, the number of Supervisors nominated by the same Shareholder and his/her related parties shall not exceed two-thirds of the number of members on the Board of Supervisors; the same Shareholder shall nominate only one candidate for external Supervisor and shall not nominate candidates for both independent Director and external Supervisor.

The Board of Supervisors shall be accountable to the general meeting and exercise the following powers:

- (a) to examine our financial activities;
- (b) to supervise the behaviors of the Directors and senior management personnel in their performance of their duties in our Bank and to propose the removal of directors and senior management personnel who have violated laws, administrative regulations, our Articles or resolutions of the shareholders' general meetings;
- (c) when the acts of a Director, president or senior management personnel of the Bank are detrimental to its interests, to require the aforementioned persons to correct these acts;
- (d) to examine financial information such as financial reports, business reports and profit distribution plans proposed to be submitted to the Shareholders' general meeting by the Board, to conduct investigations if there are any doubts or irregularities in relation to the operation of the Bank, and to engage professionals from accountant firms or law firms etc. if necessary to assist its duties at the expenses of the Bank;
- (e) to negotiate with a Director or bring actions against a Director on behalf of our Bank;
- (f) 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;



- (g) to propose the convening of provisional board meetings and to submit proposals to the shareholders' general meetings;
- (h) to exercise any other authorities as authorized by our Articles or the shareholders' general meetings;

Regular meetings of the Board of Supervisors shall be convened at least once each quarter and be convened by its chairman. Notice of the regular meetings of the Board of Supervisors shall be served on all of the Supervisors 10 days before the date of such meeting and documents thereof shall be served on all of the Supervisors 5 days before the date of such meeting.

Meetings of the Board of Supervisors shall be held only if more than two thirds of the Supervisors are present. Board of Supervisors shall vote on each resolution at a meeting. Except as otherwise provided for in applicable laws, administrative regulations, department rules or by the relevant regulators or our Articles, any resolutions made by the Board of Supervisors shall be effective only after such resolutions have been adopted by more than two thirds of all supervisors.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. However, they are not entitled to any voting rights.

### **PRESIDENT**

The Bank shall have one president who shall be accountable to the Board and shall perform the following duties and powers:

- (a) to take charge of the daily administrative, business and financial management affairs of the Bank, to organize the implementation of the resolutions of the Board and to report the work to the Board;
- (b) to submit annual business plans and investment proposals to the Board and to organize the implementation upon approval by the Board;
- (c) to draft proposals on the establishment of the Bank's internal management entities and branches;
- (d) to draft the Bank's basic management system;
- (e) to formulate the Bank's specific regulations;
- (f) to propose to appoint or dismiss the vice presidents, assistant to the president, financial chief and other senior management personnel;
- (g) to appoint or dismiss persons in charge of the internal departments and branches of the Bank other than those to be engaged or dismissed by the Board; and determine their salaries, benefits and reward or punishment according to the remuneration reward and punishment scheme fixed by the Board;
- (h) to decide the wages, benefits, reward and punishment of the Bank's staff;
- (i) to authorize senior management personnel of the Bank and persons in charge of internal departments and branches to conduct operational activities;
- (j) to adopt emergency measures when any material emergency (such as a run on the Bank) arises and promptly report them to the banking regulatory and administrative authorities under State Council, the Board and the Board of Supervisors;
- (k) other powers and rights conferred by applicable laws, our Articles or by the Board.

The President may observe the meetings of the Board. A non-Director president shall have no voting rights thereat.

**SECRETARY TO THE BOARD**

There shall be a secretary to the Board. The secretary to the Board, a member of the senior management personnel, shall be accountable to the Board.

The main duties and responsibilities of the secretary to the Board shall include:

- (a) to ensure that the Bank prepares and submits reports and documents required by competent agencies in accordance with relevant laws;
- (b) to prepare for Board meetings and general meetings and be responsible for the minutes of the meetings and the safekeeping of meeting minutes and documents; to ensure that the Bank has complete constitutional documents and records;
- (c) to prepare documents for Board meetings and general meetings as well as relevant rules;
- (d) to be responsible for the information disclosure of the Bank and ensure the timely, accurate, lawful, truly and complete disclosure of the Bank's information;
- (e) to ensure that the register of shareholders of the Bank is properly set up, and that people entitled to obtain the Bank's relevant records and documents, can receive such records and documents in a timely manner;
- (f) to be responsible for the safekeeping of the register of shareholders, the seal of the Board and relevant materials and to be responsible to handle matters related to management of the equity shares of the Bank and registration of trusteeship;
- (g) other matters as authorized by the Board.

**RESOLUTION OF DISPUTES**

The Bank shall abide by the following rules for dispute resolution:

- (a) If any disputes or claims in relation to the Bank's business, with respect to any rights or obligations under our Articles, the PRC Company Law or any other relevant laws and administrative regulations, arise between Shareholders of overseas listed shares and the Bank, between Shareholders of overseas listed shares and the Bank's Directors, Supervisors or senior management personnel of the Bank, or between Shareholders of overseas listed shares and other Shareholders, the parties concerned shall submit such disputes or claims to arbitration.

When the aforementioned disputes or claims are submitted to arbitration, such disputes or claims shall be submitted in their entirety, and all persons (being the Bank, the Bank's Shareholders, Directors, Supervisors or senior management personnel of the Bank) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

Disputes with respect to the definition of Shareholders and disputes concerning the register of Shareholders need not be resolved by arbitration.

- (b) An applicant may choose for the arbitration to be arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the claimant.

If an applicant opts for arbitration by the Hong Kong International Arbitration Centre, either party may request for the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

- (c) Unless otherwise provided by the laws, administrative regulations, departmental rules or regulatory documents, the laws of the PRC shall apply to the settlement of any disputes or claims that are resolved by arbitration described in item (a) above.
- (d) The award of the arbitration institution shall be final and binding on all parties.

## 1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this prospectus, all of which are subject to change and may have retrospective effect.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital gain and profit tax, business tax/appreciation tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

### A. The PRC Taxation

#### *Taxation on Dividends*

##### *Individual Investors*

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the “**IIT Law**”), which was last amended on June 30, 2011 and came into effect on September 1, 2011 and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on July 19, 2011 and came into effect on September 1, 2011, dividends paid by PRC enterprises are subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa 1993 No. 45 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non- foreign-invested enterprise is required to withhold the tax at a rate of 20%.

##### *Enterprise Investors*

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**CIT Law**”), and the Implementation provisions for the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), both effective as of January 1, 2008, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such

non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. The withholding tax may be reduced pursuant to applicable treaties to avoid double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular on Issues Relating to the Withholding of Corporate Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民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 the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold corporate income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Questions on Levying Corporate Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No.394) which was issued by the SAT and came into effect on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold corporate income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, the Chinese Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fourth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the State Administration of Taxation (《國家稅務總局關於〈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〉第四議定書》) effective on December 29, 2015 states that such provisions shall not apply to arrangement made for the primary purpose of gaining such tax benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

#### *Tax Treaties*

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC or residing in Hong Kong or Macau 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/Arrangements 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%.

Pursuant to the Circular of the MOF and the State Administration of Taxation Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals 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 State Administration of Taxation on March 30, 1998, from January 1, 1997, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax. The State Administration of Taxation has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the latest amended Individual Income Tax Law and the Implementation Rules of IIT Law.

However, on December 31, 2009, the MOF, the State Administration of Taxation and CSRC jointly issued the Circular on Related Issues on 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 states that individuals' income from transfer of listed shares on certain domestic exchanges shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Stocks of Listed Companies (《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, no aforesaid provisions have expressly provided that whether individual income tax shall be collected from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges, and to the best of our knowledge, in practice such tax has not been collected by the PRC tax authorities.

*Enterprise Investors*

In accordance with the CIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected in reality with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or exempted 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實施細則》) effective as of October 1, 1988, PRC stamp duty only applies on specific proof executed or received within the PRC and having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

*Estate Duty*

As of the date of this prospectus, no estate duty has been levied in China under the PRC laws.

**B. HONG KONG TAXATION***Tax on Dividends*

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

*Capital Gains and Profit Tax*

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

*Stamp Duty*

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

*Estate Duty*

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006.

**2. PRINCIPAL TAXATION OF OUR BANK BY THE PRC***Corporate Income Tax*

Pursuant to the CIT Law, enterprises and other organizations which generate income within the PRC are corporate income tax payers and shall pay corporate income tax at a tax rate of 25%.

*Business Tax/Appreciation Tax*

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994, subsequently amended on November 5, 2008 and implemented on January 1, 2009, the Bank is engaged in banking activities within the PRC and is therefore subject to a 5% business tax.

Pursuant to Notice on Implementing the Pilot Reform for Transition from Business Tax to Value-added Tax Nationwide issued by the MOF and SAT (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No.36) promulgated on March 23, 2016 and effective from May 1, 2016, from May 1, 2016 onwards, the pilot reform for the transition from business tax to VAT (“Business Tax to VAT”) is implemented nationwide, and the financial industry is included in such pilot and is required to pay VAT instead of Business Tax. Pursuant to the Implementation Measures for Transition from Business Tax to Value-added Tax (營業稅改徵增值稅試點實施辦法), unless otherwise provided in the implementation measures, the tax rate is generally 6% for tax payers who conducted taxable behaviors. The Bank started to calculate and pay VAT instead of business tax since May 1, 2016.

### 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 authorization of the PBOC, is empowered with the functions of administering 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 unified Renminbi exchange rate adopted a single, controlled floating exchange rate system based on market demand and supply. 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. Buying and selling of foreign exchange between designated foreign exchange banks and their clients are allowed to be conducted within a range of floating exchange rates.

On January 29, 1996, the State Council promulgated new Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Control Regulations**”) which became effective on April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current items and capital items. Most of the current items are no longer subject to SAFE’s approval, while capital items still are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 1, 2008. The latest amendment to the Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international current payments and transfers.

On June 20, 1996, PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理暫行規定》) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange under current items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Issues regarding Improving the Reform of the Renminbi (《關於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 the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions 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 Center 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 on that day using the weighted average of the remaining market makers' offered quotations after excluding the highest and lowest quotations, and announce the central parity of the RMB against currencies such as the USD 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 USD by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center before the interbank foreign exchange market opens every day 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 for Foreign Exchange Control, which have made substantial changes to the foreign exchange supervision system of the PRC. First, it has 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, it has improved the RMB exchange rate regime based on market supply and demand; it has 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 imbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures; fourth, it has enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its supervisory and administrative powers.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the SAFE, effect payment from foreign exchange accounts at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange banks or effect exchange and payment 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 of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

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 company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its establishment; 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.

On February 13, 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of 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)). The notice came into effect on June 1, 2015. The notice has cancelled the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice of the State Administration of Foreign Exchange of the PRC on Revolutionize and Regulate Capital Account Settlement Management Policies (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) issued by the SAFE on June 15, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

**1. FURTHER INFORMATION ABOUT OUR BANK****A. Establishment**

Our Bank was established as a joint stock limited company in the PRC on December 23, 2014 under the PRC Company Law.

Our Bank has established a principal place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on May 4, 2017. Ms. LEUNG Wing Han Sharon has been appointed as the agent for the acceptance of service of process and notices on behalf of our Bank in Hong Kong. Our address for acceptance of service of process in Hong Kong is the same as the address of the principal place of business in Hong Kong.

We conduct our banking business in the PRC under the supervision and regulation of the CBRC and the PBoC. The Bank is 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 the Bank is established in the PRC, the corporate structure of the Bank and the Articles of Association are subject to the relevant PRC laws and regulations. A summary of the relevant aspects of PRC laws and regulations is set out in Appendix IV. A summary of the relevant provisions of the Articles of Association is set out in Appendix V.

**B. Changes in Share Capital**

At the time of the establishment, the initial registered capital of the Bank was RMB15,420,540,741, divided into 15,420,540,741 Domestic Shares with a nominal value of RMB1.00 each. On December 31, 2015, our registered capital was increased from RMB15,420,540,741 to RMB16,625,000,000, divided into 16,625,000,000 Domestic Shares with a nominal value of RMB1.00 each. Save as disclosed above, there has been no alteration in the registered capital of the Bank within the two years preceding the date of this prospectus.

Immediately after the Global Offering (assuming the Over-allotment Option is not exercised), the registered capital of the Bank will be RMB19,625,000,000, consisting of 16,325,000,000 Domestic Shares and 3,300,000,000 H Shares, which represent approximately 83.18% and 16.82% of the total issued share capital of the Bank, respectively.

**C. Restriction on Share Repurchase**

For details of the restriction on the share repurchase by our Bank, see "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association".

**D. Resolutions of the Shareholders**

Resolutions were passed on the Shareholders' general meeting on November 28, 2016, pursuant to which, among other matters:

- (a) the Global Offering, the Listing and the Over-allotment Option were approved; and
- (b) the Board and the persons authorized by the Board were authorized to handle all matters relating to the Listing.

Resolutions were passed on the Shareholders' general meeting on February 7, 2017 pursuant to which, among other matters, certain amendments to the Articles of Association in compliance with the requirements of the Listing Rules and other applicable laws and regulations were approved. On November 28, 2016, the Board and the authorized persons approved by the Board were authorized to make further amendments to the 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.

#### **E. Our Subsidiaries and Changes in the Share Capital of Our Subsidiaries**

Details of our subsidiaries are set forth in Note 25 to the Accountants' Report, the full text of which is set out in Appendix IB to this prospectus.

Save as disclosed below, there has been no alteration in the registered capital of our subsidiaries within the two years preceding the date of this prospectus:

On July 7, 2015, the registered capital of Xinyang Pingqiao Zhongyuan County Bank was increased from RMB58,000,000 to RMB69,600,000.

On February 14, 2016, the registered capital of Xiangcheng Huipu County Bank was increased from RMB50,000,000 to RMB61,000,000.

On March 15, 2016, the registered capital of Xiping Caifu County Bank was increased from RMB100,000,000 to RMB208,524,259.

On August 10, 2016, the registered capital of Puyang Zhongyuan County Bank was increased from RMB50,000,000 to RMB58,750,000.

On December 29, 2016, Consumer Finance Company was established with registered capital of RMB500,000,000.

## **2. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **A. Summary of Our Material Contracts**

We 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:

- (1) an acting-in-concert agreement dated December 31, 2015 entered into among Henan Renmin Zaixian Internet Co., Ltd. (河南人民在線網絡有限公司), Henan Wodefeng Fertilizer Co., Ltd. (河南沃得豐肥業有限公司), Xiangcheng County Xiangqian Spinning Co., Ltd. (襄城縣向前紡織有限公司), Xiangcheng County Lianchuang Spinning Co., Ltd. (襄城縣聯創紡織有限公司) and the Bank in respect of, inter alia, the concert parties actions to be taken for the matters to be resolved in the shareholders' general meetings of Suiping Hengsheng County Bank Co., Ltd. (遂平恆生村鎮銀行股份有限公司);
- (2) an acting-in-concert agreement dated December 19, 2016 entered into among CHEN Bo (陳博), HAN Shuli (韓淑莉) and the Bank in respect of, inter alia, the concert parties actions to be taken for the matters to be resolved in the shareholders' general meetings of Lushi Defeng County Bank Co., Ltd. (盧氏德豐村鎮銀行股份有限公司);

- (3) an acting-in-concert agreement dated December 31, 2016 entered into among Zhumadian Development Zone Yongsheng Trading Co., Ltd. (駐馬店市開發區永盛商貿有限公司), Zhumadian Gonghao Trading Co., Ltd. (駐馬店市共好貿易有限公司), Zhumadian Yicheng District Changda Trading Co., Ltd. (駐馬店市驛城區昌大商貿有限公司), Zhumadian Hengrun Trading Co., Ltd. (駐馬店市恒潤商貿有限公司) and the Bank in respect of, inter alia, the concert parties actions to be taken for the matters to be resolved in the shareholders' general meetings of Suiping Hengsheng County Bank Co., Ltd. (遂平恒生村鎮銀行股份有限公司);
- (4) an acting-in-concert agreement dated December 31, 2016 entered between Shangqiu Huaqiang Construction Materials Co., Ltd. (商丘市華強建材有限公司) and the Bank in respect of, inter alia, the concert parties actions to be taken for the matters to be resolved in the shareholders' general meetings of Xiangcheng Huipu County Bank Co., Ltd. (襄城滙浦村鎮銀行股份有限公司);
- (5) an acting-in-concert agreement dated December 31, 2016 entered among Chunjiang Group Co., Ltd. (春江集團有限公司), Henan Taiyangshi Group Cement Co., Ltd. (河南省太陽石集團水泥有限公司), Xinxiang Textile Chemical Fiber Co., Ltd. (新鄉市紡織化纖原料有限公司) and the Bank in respect of, inter alia, the concert parties actions to be taken for the matters to be resolved in the shareholders' general meetings of Xinxiang Xinxing County Bank Co., Ltd. (新鄉新興村鎮銀行股份有限公司);
- (6) an acting-in-concert agreement dated December 31, 2016 entered into among Xinjiang Xinliangji Industrial Co., Ltd. (新疆新良基實業有限公司), Xinjiang Fuguo Mining Project Co., Ltd. (新疆富國礦業工程有限公司), LIU Zuocheng (劉作成), Xinjiang Feihao Trading Co., Ltd. (新疆飛豪貿易有限公司), Guangdong Lingnan Renjia (Henan) Wine Making Co., Ltd. (廣東嶺南人家(河南)釀酒有限公司), Henan Yijiu Group Co., Ltd. (河南驛酒集團有限公司) and the Bank in respect of, inter alia, the concert parties actions to be taken for the matters to be resolved in the shareholders' general meetings of Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司);
- (7) a cornerstone investment agreement dated June 27, 2017 entered into by, among others, our Bank and Tian Kun Investment Limited (天堃投資有限公司) (“**Tian Kun Investment**”), pursuant to which Tian Kun Investment agreed to subscribe for 726,000,000 H Shares;
- (8) a cornerstone investment agreement dated June 27, 2017 entered into by, among others, our Bank and Shanghai Huaxin Group (HongKong) Limited (上海華信集團(香港)有限公司) (“**Shanghai Huaxin Group HK**”), pursuant to which Shanghai Huaxin Group HK agreed to subscribe for our H Shares in the amount of US\$180 million;
- (9) a cornerstone investment agreement dated June 27, 2017 entered into by, among others, our Bank and China Create Capital Limited (“**China Create Capital**”), pursuant to which China Create Capital agreed to subscribe for our H Shares in the amount of US\$101 million; and
- (10) the Hong Kong Underwriting Agreement.

## B. Intellectual Property Rights

## (a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks, which are or may be material to our business.

No.	Trademark	Place of Registration	Class <sup>(1)</sup>	Registration No.	Valid Period
1	 中原银行 ZHONGYUAN BANK	PRC	41	15565663	From March 28, 2017 to March 27, 2027
2		PRC	41	15565167A	From January 14, 2016 to January 13, 2026
3		PRC	21	15564738	From December 14, 2015 to December 13, 2025
4	中原易通	PRC	9	15862326	From February 7, 2016 to February 6, 2026
5		PRC	36	7538125	From July 7, 2013 to July 6, 2023
6	e通天下卡	PRC	9	15861974	From June 7, 2016 to June 6, 2026
7	中原e通天下	PRC	36	15860656	From February 7, 2016 to February 6, 2026
8		PRC	36	5164000	From August 28, 2009 to August 27, 2019
9	鼎盛中原	PRC	41	15885138	From February 7, 2016 to February 6, 2026
10	鸡公山	PRC	36	9003260	From January 21, 2012 to January 20, 2022
11	金周	PRC	36	8278170	From August 7, 2011 to August 6, 2021
12		PRC	42	15565262	From January 21, 2017 to January 20, 2027
13	中原云	PRC	36	15860708	From February 7, 2016 to February 6, 2026
14		PRC	36	9863002	From October 21, 2012 to October 20, 2022



No.	Trademark	Place of Registration	Class <sup>(1)</sup>	Registration No.	Valid Period
15		PRC	9	15564406	From January 21, 2017 to January 20, 2027
16	中原e通	PRC	36	15862179	From February 7, 2016 to February 6, 2026
17	如愿	PRC	36	8278173	From August 7, 2011 to August 6, 2021
18		PRC	6	15564362A	From January 14, 2016 to January 13, 2026
19		PRC	45	15565401	From December 7, 2015 to December 6, 2025
20	安鼎	PRC	36	8917745	From April 14, 2012 to April 13, 2022
21		PRC	36	7762465	From February 21, 2011 to February 20, 2021
22		PRC	36	11431263	From August 21, 2014 to August 20, 2024
23	中原e通天下	PRC	9	15860456	From February 7, 2016 to February 6, 2026
24	原银	PRC	38	15862613	From February 21, 2016 to February 20, 2026
25	中原云	PRC	9	15860825A	From February 21, 2016 to February 20, 2026
26		PRC	43	15565334	From February 14, 2016 to February 13, 2026
27	金水滴	PRC	36	9050413	From January 21, 2012 to January 20, 2022
28	鼎盛卡	PRC	9	15860144	From February 7, 2016 to February 6, 2026
29		PRC	39	15565040	From December 7, 2015 to December 6, 2025

No.	Trademark	Place of Registration	Class <sup>(1)</sup>	Registration No.	Valid Period
30		PRC	36	10602069	From May 7, 2013 to May 6, 2023
31	顺易行	PRC	36	17766322	From October 14, 2016 to October 13, 2026
32		PRC	9	15564406A	From January 14, 2016 to January 13, 2026
33	中原e通	PRC	9	15862193A	From February 21, 2016 to February 20, 2026
34	顺e行	PRC	36	17766319	From October 14, 2016 to October 13, 2026
35		PRC	36	5025973	From June 28, 2009 to June 27, 2019
36		PRC	38	15564963	From December 7, 2015 to December 6, 2025
37	原银	PRC	9	15862327	From February 7, 2016 to February 6, 2026
38		PRC	41	15565167	From December 14, 2016 to December 13, 2026
39	顺易融	PRC	36	17766324	From October 14, 2016 to October 13, 2026
40	原银	PRC	35	15862481	From February 21, 2016 to February 20, 2026
41	中原易通	PRC	36	15862361	From February 7, 2016 to February 6, 2026
42	福农多	PRC	36	17615859	From September 28, 2016 to September 27, 2026
43	顺易通	PRC	36	17766323	From October 14, 2016 to October 13, 2026









## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Class <sup>(1)</sup>	Registration No.	Valid Period
44	中原风景线	PRC	36	17766329	From October 14, 2016 to October 13, 2026
45	连城卡	PRC	36	6778888	From April 28, 2010 to April 27, 2020
46		PRC	44	15565383	From February 14, 2016 to February 13, 2026
47	原银	PRC	36	15862619	From February 21, 2016 to February 20, 2026
48	天下卡	PRC	9	15860395	From February 7, 2016 to February 6, 2026
49	 襄城汇浦村镇银行 XIANGCHENG HUIFU RURAL BANK	PRC	36	10677809	From May 21, 2013 to May 20, 2023
50	乡缘	PRC	9	13667508	From April 14, 2015 to April 13, 2025

As of the Latest Practicable Date, we had applied for the registration of the following trademarks, which are or may be material to our business:

No.	Trademark	Place of Registration	Class <sup>(1)</sup>	Application No.	Application Date
1		Hong Kong	9, 16, 35, 36, 41, 42	304028085	January 21, 2017
2	ZY BANK ZY BANK ZY Bank ZY Bank	Hong Kong	16, 35, 36	304107816	April 12, 2017
3	ZHONGYUAN BANK ZHONGYUAN BANK Zhongyuan Bank Zhongyuan Bank	Hong Kong	16, 35, 36	304107825	April 12, 2017

No.	Trademark	Place of Registration	Class <sup>(1)</sup>	Application No.	Application Date
4		PRC	16	15564636	October 23, 2014
5		PRC	35	15564740	October 23, 2014
6		PRC	36	15564867	October 23, 2014
7		PRC	37	15564893	October 23, 2014
8		PRC	36	15565705	October 23, 2014
9	永續	PRC	36	21715972	October 28, 2016
10	永續貸	PRC	9	21715973	October 28, 2016
11	永續貸	PRC	36	21715974	October 28, 2016
12	中原銀行中原金	PRC	14	22301278	December 19, 2016
13	中原金	PRC	14	22301279	December 19, 2016
14	中原銀行吉象卡	PRC	36	22301277	December 19, 2016

*Note:*

- (1) For details of the classification of goods for trademarks, see the paragraph headed “— 2. Further Information about Our Business — B. Intellectual Property Rights — (b) Classification of Goods for Trademarks”.

(b) *Classification of Goods for Trademarks*

The table below sets out the classification of goods for trademarks (the detailed classification in relation to the relevant trademarks depends on the details set out in the relevant trademark certificates and may differ from the list below):

Class Number	Goods
6	Common metals and their alloys, ores; metal materials for building and construction; transportable buildings of metal; non-electric cables and wires of common metal; small items of metal hardware; metal containers for storage or transport; safes.
9	Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.
14	Precious metals and their alloys; jewelery, precious and semi-precious stones; horological and chronometric instruments.
16	Paper and cardboard; printed matter; bookbinding material; photographs; stationery and office requisites, except furniture; adhesives for stationery or household purposes; artists' and drawing materials; paintbrushes; instructional and teaching materials; plastic sheets, films and bags for wrapping and packaging; printers' type, printing blocks.
21	Household or kitchen utensils and containers; combs and sponges; brushes, except paintbrushes; brush-making materials; articles for cleaning purposes; unworked or semi-worked glass, except building glass; glassware, porcelain and earthenware.
35	Advertising; business management; business administration; office functions.
36	Insurance; financial affairs; monetary affairs; real estate affairs.
37	Building construction; repair; installation services.
38	Telecommunications.
39	Transport; packaging and storage of goods; travel arrangement.
41	Education; providing of training; entertainment; sporting and cultural activities.
42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.
43	Services for providing food and drink; temporary accommodation.
45	Legal services; security services for the physical protection of tangible property and individuals; personal and social services rendered by others to meet the needs of individuals.


(c) *Domain Names*

As of the Latest Practicable Date, we had registered the following Internet domain names/general website, which are or may be material to our business:

No.	Domain Name	Place of Registration	Owner	Application Date	Expiration Date
1	zyebank.com	PRC	Bank	August 19, 2014	August 19, 2017
2	zybank.com.cn	PRC	Bank	August 19, 2014	August 19, 2017
3	lzzybank.com	PRC	Linzhou Defeng County Bank	May 5, 2016	May 5, 2026
4	qxzybank.com	PRC	Qixian Heyin County Bank Co., Ltd.	May 5, 2016	May 5, 2019
5	xxrbank.cn	PRC	Xinxiang Xinxing County Bank	October 13, 2015	October 13, 2018
6	pycz.cn	PRC	Puyang Zhongyuan County Bank	October 14, 2013	October 14, 2020
7	xchrbank.cn	PRC	Xiangcheng Huipu County Bank	December 2, 2013	December 2, 2019
8	Iszybank.com	PRC	Lushi Defeng County Bank	May 5, 2016	May 5, 2026
9	xpcfbank.com	PRC	Xiping Caifu County Bank	April 20, 2014	April 20, 2020
10	sphsbank.com	PRC	Suiping Hengsheng County Bank	May 22, 2013	May 22, 2020

(d) *Copyright*

As of the Latest Practicable Date, we had registered the following copyright, which is or may be material to our business:

Title	Graphic	Type	Copyright owner	Registration Date	Registration No.
Zhongyuan Ding logo		Art	Bank	November 14, 2016	Guo Zuo Deng Zi -2016-F-00335296

Save as disclosed herein, there are no other trademarks, patents or other intellectual or industrial property rights which are or may be 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 gross loans and advances to customers as of the Latest Practicable Date.

### 3. FURTHER INFORMATION ABOUT THE SUBSTANTIAL SHAREHOLDERS, DIRECTORS, MANAGEMENT AND STAFF

#### A. Disclosure of the Substantial Shareholders' interests

So far as the Directors are aware, immediately following the completion of the Global Offering, the following persons (other than the Directors, Supervisors and chief executive of our Bank) will have or be deemed or taken to have interests and/or short positions in our Shares or underlying Shares which would be required to be disclosed to the Bank 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 the general meetings of any other member of our Group.

#### *Interests or short positions of substantial Shareholders in the Shares or underlying Shares*

Name of Shareholder	Nature of interest	Class of 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)		
			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 % of interest in our Bank	Approximate % of the relevant class of Shares
Henan Investment Group Co., Ltd. <sup>(1)</sup> (河南投資集團有限公司) ("Henan Investment Group") .....	Beneficial owner	Domestic Shares	1,419,378,680	7.23%	8.69%	1,407,285,479	7.01%	8.64%
Yongcheng Coal and Electricity Holding Group Co., Ltd. <sup>(2)</sup> (永城煤電控股集團有限公司) ("Yongcheng Coal and Electricity") .....	Beneficial owner	Domestic Shares	1,166,691,713	5.94%	7.15%	1,156,751,425	5.76%	7.11%
	Interest in controlled corporation	Domestic Shares	54,979,908	0.28%	0.34%	54,695,401	0.27%	0.34%
Henan Energy and Chemical Group Investment Co., Ltd. <sup>(3)</sup> (河南能源化工集團投資有限公司) ("Henan Energy and Chemical") .....	Interest in controlled corporation	Domestic Shares	1,310,610,003	6.68%	8.03%	1,299,627,447	6.47%	7.98%

#### Notes:

- (1) Henan Investment Group is the largest Shareholder and one of the state-owned Shareholders. It is wholly-owned by The Henan Provincial Development and Reform Commission (河南省發展和改革委員會).
- (2) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Yongcheng Coal and Electricity will directly hold 1,166,691,713 Domestic Shares and indirectly hold 54,979,908 Domestic Shares through its controlled corporations, including 23,345,167 Domestic Shares to be directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司) ("Yongcheng Jingchuang"), 10,047,456 Domestic

Shares to be directly held by Kaifeng Tieta Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司) (“**Kaifeng Tieta**”) and 21,587,285 Domestic Shares to be directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司) (“**Shangqiu Tianlong**”), respectively. By virtue of the SFO, Yongcheng Coal and Electricity is deemed to be interested in the Domestic Shares held by Yongcheng Jingchuang, Kaifeng Tieta and Shangqiu Tianlong.

- (3) Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Henan Energy and Chemical will indirectly hold 1,310,610,003 Domestic Shares through its controlled corporations, including 1,166,691,713 Domestic Shares to be directly held by Yongcheng Coal and Electricity, 21,587,285 Domestic Shares to be directly held by Shangqiu Tianlong, 23,345,167 Domestic Shares to be directly held by Yongcheng Jingchuang, 10,047,456 Domestic Shares to be directly held by Kaifeng Tieta, 23,750,621 Domestic Shares to be directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司) (“**Anyang Chemical and Engineering**”), 15,755,726 Domestic Shares to be directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) (“**Henan Finance**”), and 49,432,035 Domestic Shares to be directly held by Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司) (“**Henan Guolong**”), respectively. By virtue of the SFO, Henan Energy and Chemical is deemed to be interested in the Domestic Shares held by Yongcheng Coal and Electricity, Shangqiu Tianlong, Yongcheng Jingchuang, Kaifeng Tieta, Anyang Chemical & Engineering, Henan Finance and Henan Guolong.

*Interests of substantial shareholders in members of our Group (excluding our Bank)*

Our subsidiary	Registered capital	Parties with 10% or above shareholdings	Percentage of interest
Lushi Defeng County Bank.....	RMB60,000,000	Yang Zhenfu (楊振富)	10%
		Chen Bo (陳博)	10%
		Han Shuli (韓淑莉)	10%
		Liu Kewei (劉科偉)	10%
Qixian Zhongyuan County Bank.....	RMB50,000,000	Hebi Hongda Engineering Construction Co., Ltd. (鶴壁市宏大工程建設有限公司)	10%
		Hebi Heyou Property Development Co., Ltd. (鶴壁市合友房地產開發有限公司)	10%
		Hongxian Xinghe Livestock Development Co., Ltd. (淇縣興和畜牧開發有限公司)	10%
Xiangcheng Huipu County Bank.....	RMB61,000,000	Shangqiu Huaqiang Building Materials Co., Ltd. (商丘市華強建材有限公司)	10%
		Henan Dayu Mining Co., Ltd. (河南大禹礦業有限公司)	10%
Xinxiang Xinxing County Bank.....	RMB130,000,000	Chunjiang Group Co., Ltd. (春江集團有限公司)	10%
		Beijing Shuangquan Property Development Co., Ltd. (北京雙全房地產開發有限公司)	10%
		Beijing Longyuan Lvmei Technology Co., Ltd. (北京龍源綠鎂科技有限公司)	10%
		Huachuan Yihe Mining Co., Ltd. (樺川怡和礦業有限公司)	10%

<u>Our subsidiary</u>	<u>Registered capital</u>	<u>Parties with 10% or above shareholdings</u>	<u>Percentage of interest</u>
Consumer Finance Company .....	RMB500,000,000	Shanghai Yiqian Network Information Technology Co., Ltd. (上海伊千網絡信息技術有限公司)	35%

#### B. Disclosure of the Directors' and Supervisors' interests

Save as disclosed below, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of the 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 the Bank 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 the Bank and the Hong Kong Stock Exchange upon the Listing, 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 the Supervisors.

#### *Interests in our Bank*

##### *Directors*

<u>Name of Director</u>	<u>Capacity</u>	<u>Class of Shares</u>	<u>Number of Shares directly or indirectly held</u>	<u>Approximate % of interest in our Bank</u>
Ms. HU Xiangyun (胡相雲)..	Beneficiary Owner	Domestic Shares	500,000	0.00%
Mr. LI Xipeng (李喜朋).....	Interest in controlled corporation <sup>(1)</sup>	Domestic Shares	753,000,000	3.84%

##### *Supervisors*

<u>Name of Supervisor</u>	<u>Capacity</u>	<u>Class of Shares</u>	<u>Number of Shares directly or indirectly held</u>	<u>Approximate % of interest in our Bank</u>
Ms. JIA Jihong (賈繼紅).....	Beneficiary Owner	Domestic Shares	2,472	0.00%
Mr. SI Qun (司群).....	Beneficiary Owner	Domestic Shares	126,321	0.00%
Mr. LI Wanbin (李萬斌).....	Interest in Controlled Corporation <sup>(2)</sup>	Domestic Shares	407,657,871	2.08%
Mr. ZHAO Ming (趙明).....	Interest in Controlled Corporation <sup>(3)</sup>	Domestic Shares	568,000,000	2.89%

*Interests in associated corporations**Directors*

<u>Name of Director</u>	<u>Entity</u>	<u>Capacity</u>	<u>Number of shares directly or indirectly held</u>	<u>Approximate % of interest</u>
Hu Xiangyun (胡相雲).....	Xinyang Pingqiao Zhongyuan County Bank	Beneficial owner	600,000	0.86%

*Notes:*

- (1) Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司), which will in turn directly hold 753,000,000 Domestic Shares immediately following the completion of the Global Offering. By virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the Shares held by Henan Shengrun Holdings Group Co., Ltd.
- (2) Mr. LI Wanbin and his spouse directly and indirectly hold 100% equity interest in Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), and 100% equity interest in Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司), which will in turn directly hold 407,657,871 Domestic Shares in aggregate immediately following the completion of the Global Offering. By virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the Shares held by Henan Wanzhong Group Co., Ltd. and Henan Zongheng Gas Pipeline Co., Ltd.
- (3) Mr. ZHAO Ming holds 75.34% equity interest in Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司), which will in turn directly hold 568,000,000 Domestic Shares immediately following the completion of the Global Offering. By virtue of the SFO, Mr. ZHAO Ming is deemed to be interested in the Shares held by Henan Guangcai Group Development Co., Ltd.

**C. Particulars of Service Contracts**

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, the Bank has entered into a service contract with each of the 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, the Bank has not entered, and do not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors or 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 amounts of remuneration to the Directors, Supervisors and members of the senior management team (excluding those who are also Directors) for the three years ended December 31, 2014, 2015 and 2016 were approximately RMB70.2 million, RMB36.9 million, and RMB41.8 million, respectively.

It is estimated that remuneration equivalent to approximately RMB26.6 million in aggregate will be paid to the Directors and Supervisors by our Bank for the year ending December 31, 2017 based on the arrangements in force as of the date of this prospectus.



**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 our Bank.

**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 Bank in connection with the issuance or sale of any of 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 the parties 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 our Bank, 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 Purchase Agreement, none of the parties listed in “— 4. Other Information — E. Qualification of Experts”:
  - (i) is interested legally or beneficially in any of the Shares or the securities of the Bank; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the Shares or any of the securities of the Bank;
- (c) none of our Directors or Supervisors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of our Bank that has to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO after the Listing; and
- (d) so far as is known to any Director or chief executive of our Bank, no person has an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Bank, once the H Shares are listed on the Hong Kong Stock Exchange.

**4. OTHER INFORMATION****A. Estate Duty**

The Directors have been advised that currently there is no material liability for estate duty that is likely to be imposed on the Bank under the relevant PRC laws and regulations.

**B. Litigation**

Save as disclosed in “Business — Legal and Administrative Proceedings”, our Group is not involved in any litigation, arbitration or administrative proceedings of material importance as of the Latest Practicable Date, and so far as the Group is 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 behalf of the Bank to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares to be issued (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Each of the Joint Sponsors satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

The Bank has entered into engagement agreements with the Joint Sponsors, respectively, pursuant to which the Bank agreed to pay a total amount of HK\$7,800,000 to the Joint Sponsors to act as the sponsors to our Bank in the Global Offering.

**D. Preliminary Expenses**

Our preliminary expenses are estimated to be approximately RMB71,372,960 and are payable by us.

**E. Qualification of Experts**

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding up and Miscellaneous Provisions) Ordinance) who have given opinions or advice in this prospectus are as follows.

Name	Qualification
CITIC CLSA Capital Markets Limited .....	Licenses of type 4 (advising on securities) and type 6 (advising on corporate finance)
J.P. Morgan Securities (Far East) Limited .....	Licenses of type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance)
CCB International Capital Limited.....	Licenses of type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance)
CMB International Capital Limited.....	Licenses of type 1 (dealing in securities) and type 6 (advising on corporate finance)

Name	Qualification
KPMG .....	Certified public accountants
King & Wood Mallesons.....	Legal advisors as to PRC laws
Jones Lang LaSalle Corporate Appraisal and Advisory Limited.....	Independent property valuer
Ms. TAM, Winnie, SC .....	Senior Counsel, Barrister-at-law

#### F. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position or prospect since December 31, 2016 (being the date on which our latest audited consolidated financial statements were made up) up to the date of this prospectus.

#### 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, (ii) no commission, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of our Bank or any of its subsidiaries; and (iii) no commission had been paid or payable (but not including commission to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Bank or any of its subsidiaries;
- (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**

Each of CITIC CLSA Capital Markets Limited, J.P. Morgan Securities (Far East) Limited, CCB International Capital Limited, CMB International Capital Limited, KPMG, King & Wood Mallesons, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Ms. TAM, Winnie, SC has given and has not withdrawn its/her written consents to the issue of this prospectus with the inclusion of its/her report, letter and/or opinion (as the case may be) and the references to its/her name included herein in the form and context in which it respectively appears.

**J. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**K. Promoters**

The promoters of the Bank comprised (i) former shareholders of the Thirteen City Commercial Banks, who contributed to the Bank's registered capital with net assets of the Thirteen City Commercial Banks and (ii) seven of the former shareholders of the Thirteen City Commercial Banks and six new investors, who contributed to the Bank's registered capital in cash.

Save as the Global Offering and as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the promoters above in connection with the Global Offering or the transactions described in this prospectus.

## L. Particulars of the Selling Shareholders

Certain particulars of the Selling Shareholders are set out as follows:

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	80,621,320	92,714,521	Its principal business scope includes investment management/construction project investment/industrial production materials and machinery and equipment required for construction projects/sale of raw materials of products arranged for investment projects (except for those subject to the specific provisions of the state); housing leasing (if any of the above is subject to approval, no operations should be carried out before the approval is obtained).	Investment Building, No. 41, Agricultural Road East, Zhengzhou (鄭州市農業路東41號投資大廈)
				(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	
2	Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司)	66,268,592	76,208,880	Its principal business scope includes investment in and management of coal, railway, chemicals and mining; power generation, transmission and transformation (branches subject to operation with certificate); manufacture and sale of machinery and equipment; processing and sale industrial grease and garment; sale of building materials, electronic products. communication equipment (excluding wireless equipment) and petrochemical products (excluding chemical dangerous goods, flammable and explosive products and refined oil); agriculture, livestock and fishery industries; aquaculture; warehousing (excluding inflammable goods); technical service; consultancy service	Middle Section of Guangming Road, Yongcheng (永城市光明路中段)
				(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
3	Xinxiang City Finance Bureau (新鄉市財政局)	19,334,453	22,234,620	It's a government agency according to the Unified Social Credit Code Certificate issued by Xinxiang City Organization Committee Office (新鄉市機構編制委員會辦公室)	No.968, Jinsui Avenue, Xinxiang City, Henan Province (河南省新鄉市金穗大道698號)
4	Xuchang City Finance Bureau (許昌市財政局)	14,437,856	16,603,535	It's a government agency according to the Unified Social Credit Code Certificate issued by Xuchang City Organization Committee Office (許昌市機構編制委員會辦公室)	East Section of Jian'an Avenue, Xuchang (許昌市建安大道東段)
5	Sanmenxia City Financial Investment Company (三門峽市財經投資公司)	12,707,999	14,614,198	Its principal business scope includes undertaking municipal infrastructure, urban roads, land, forestry resources and other municipal state-owned asset maintenance, property rights management and capital operation of Sanmenxia City; state-owned enterprise mergers and acquisitions, reorganization and planning; investment in urban construction-related industries including real estate development industry and construction industry; investment in industrial entities; commercial trading; corporate planning; investment consultation (if any of the above is subject to approval, no operations should be carried out before the approval is obtained).	Finance Bureau Building, West Section of Xiaoshan Road (崑山路西段財政局樓)
6	Nanyang City Finance Bureau (南陽市財政局)	12,202,067	14,032,377	(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 396, Zhangheng East Road, Nanyang City, Henan Province (河南省南陽市張衡東路396號)
7	Kaifeng City Finance Bureau (開封市財政局)	9,039,885	10,395,868	It's a government agency according to the Unified Social Credit Code Certificate issued by Organization Committee Office of the CPC Kaifeng Municipal Committee (中共開封市委機構編制委員會辦公室)	No. 242, Daliang Road, Longting District, Kaifeng City, Henan Province (河南省開封市龍亭區大梁路242號)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
8	China Pingmei Shenma Energy & Chemical Group Co., Ltd. (中國平煤神馬能源化工集團有限責任公司)	5,865,233	6,745,018	Its principal business scope includes coal mining and washing; railway transportation; material storage and transportation; construction industry; production and supply of electricity, heat and tap water; construction of electricity and communication projects; pipeline installation and maintenance; environmental monitoring; tender agents; leasing and business service; professional and technical management and consultancy service; elevator installation and maintenance; information transmission service; cable TV installation; film projection; theater operation and service; environmental protection equipment production and construction; property management; mechanical and electrical equipment repair; contracted offshore engineering; design, production and publication of advertisements; design and installation of coal mine safety instruments; import and export business (except for goods or technologies that are restricted or prohibited by the State); automobile sale; timber cutting; cultivation and sale of seedlings and flowers; accommodation and catering; travel agencies; resident service; production and sale of cord fabrics, industrial and civilian silk, carpet silk, plastic and rubber products, chemical products (excluding flammable, explosive and chemical dangerous goods), mechanical and electrical products and accessories, miner's lamps, type building materials, metal and non-metallic pipes and fittings, explosion-proof electrical appliances, mine ventilation safety products, metal components, cement, fly ash; wholesale and retail of coke, motor vehicle parts, metal materials, building materials, labor insurance products, electronic products, hardware and electrical equipment, belts, woods, office equipment and accessories, ornamental fish and fishing gear, agricultural products, food, pre-packaged food, health products, handicrafts, daily necessities, clothing, beverages, wine; cigarettes, cigar retail (limited to branches).	Yard 21, Kuangong Middle Road, Pingdingshan City (平頂山市礦工中路21號院)
9	Luohe City Finance Bureau (漯河市財政局)	5,847,405	6,724,515	It's a government agency according to the Unified Social Credit Code Certificate issued by Luohe City Organization Committee Office (漯河市機構編制委員會辦公室)	No.25, Huangshan Road, Yancheng District, Luohe City (漯河市鄭城區黃山路25號)

(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
10	Zhumadian City Investment Company Limited (駐馬店市投資有限公司)	5,727,184	6,586,261	Its principal business scope includes investment in state-owned assets authorized by the government (within the scope permitted by national laws and regulations), operation and revenue management; individual establishment of wholly state-owned limited companies, shareholding and equity participation in limited company establishment; issuance of corporate bonds with approval; entrusted (bank) loans; project financing and financing guarantee; land development and consolidation and real estate development and operation; urban infrastructure investment and construction, water conservancy infrastructure construction; introduction of investment for business agents, construction project consultancy, enterprise assessment, capital verification, restructure, reorganization, listing planning and corporate registration consultancy and introduction services.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Middle Section of Jinque Road, Zhumadian City (駐馬店市金雀路中段)
11	Henan Xinfei Electric Group Co., Ltd. (河南新飛電器集團有限公司)	4,563,708	5,248,264	Its principal business scope includes R & D and sale of automotive and auto parts, electrical machinery and equipment, aerospace vehicles and equipment, metal products, general equipment; investment in manufacturing, transportation and warehousing, real estate and repair services; property and land leasing; machinery and equipment leasing; financial advisory and investigation services; domestic and foreign trade (if any of the above is subject to approval, no operations should be carried out before the approval is obtained).  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 4, Hualan Avenue, Xinxiang City (新鄉市華蘭大道4號)
12	Zhoukou City Finance Bureau (周口市財政局)	4,290,592	4,934,180	It's a government agency legal person according to the Organization Code Certificate issued by Zhoukou City Quality and Technology Supervision Bureau (周口市質量技術監督局)	No.266, Taihao Road, Zhoukou City (周口市太昊路266號)



	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
13	Shangqiu City Finance Bureau (商丘市財政局)	4,063,492	4,673,016	It's a government agency according to the Unified Social Credit Code Certificate issued by Shangqiu City Organization Committee Office (商丘市機構編制委員會辦公室)	No. 366 Zhongzhou South Road, Urban and Rural Integration Demonstration Zone, Shangqiu City, Henan Province (河南省商丘市城鄉一體化示範區中州南路366號)
14	Henan Shenhuo Group Co., Ltd. (河南神火集團有限公司)	4,063,492	4,673,016	Its principal business scope includes businesses not prohibited by laws and regulation; for businesses subject to approval by laws and regulations, no operations should be carried out before the approval is obtained; for businesses without approval requirement, operating activities can be carried out by independent choice.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 17, Guangming Road, Dongcheng District, Yongcheng City (永城市東城區光明路17號)
15	Henan Agriculture Synthesis Exploitation Co, Ltd. (河南省農業綜合開發有限公司)	3,643,165	4,189,640	Its principal business scope includes investment in agriculture and agriculture-related industries.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 25, Jing Third Road, Jinshui District, Zhengzhou City (鄭州市金水區經三路25號)
16	Hebi Construction & Investment Group Co., Ltd. (鶴壁市經濟建設投資集團有限公司)	3,349,443	3,851,860	Its principal business scope includes equity participation, shareholding, policy project investment, operating project investment, entrusted loans, investment in construction of urban infrastructure, investment in construction of basic industries, investment in economic, industrial and transportation projects, land consolidation, management and maintenance of state-owned assets under authorization.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No.87, Jiuzhou Road, Qibin District, Hebi City (鶴壁市淇濱區九洲路87號)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
17	Xinyang City Finance Bureau (信陽市財政局)	3,271,339	3,762,040	It's a government agency according to the Unified Social Credit Code Certificate issued by Xinyang City Organization Committee Office (信陽市機構編制委員會辦公室)	No. 12, New Seventh Avenue, Yangshan New District, Xinyang City (信陽市羊山新區新七大道12號)
18	Sanmenxia City Agriculture Development Investment Co., Ltd. (三門峽市農發投資有限公司)	3,162,039	3,636,345	Its principal business scope includes state-owned capital operation under authority or entrustment by government; urban infrastructure project investment, financing, construction and management; development of agriculture, forestry, water conservancy, transportation, tourism and energy projects; carrying out special economic and trade cooperation; entrusted loans, land reserves, equity participation, shareholding and project investment. (If any of the above is subject to specific approval by laws and regulations, no operations should be carried out before the approval is obtained.)	Level 4, Finance Bureau Office Building, Sanmenxia City (三門峽市財政局辦公樓四樓)
19	Sanmenxia City Land and Resources Development Investment Co., Ltd. (三門峽市國土資源開發投資有限公司)	3,162,039	3,636,345	(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Finance Bureau Office, Northwest Northwestern Corner of Intersection of Xiaoshan Road and Gantang Road, Sanmenxia City (三門峽市崑山路與甘棠路交叉口西北角財政局辦公室)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
20	Henan Province Huangchuan Huaying Poultry Industry Corporation (河南省濮川華英禽業總公司)	3,002,818	3,453,240	<p>Its principal business scope includes mainly engaging in plastic weaving, auto part retail, entity investment, color printing (only limited to affiliated branches) and concurrently engaging in operation of import and export business of products by the company and related technologies (excluding goods and technology limited to operation by the company or prohibited from importing and exporting according to requirements of the State).</p> <p>(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)</p>	Yuejin Road, Chengguan, Huangchuan County (濮川縣城關躍進路)
21	Henan Guolong Mining Construction Co., Ltd. (河南國龍礦業建設有限公司)	2,807,761	3,228,925	<p>Its principal business scope includes construction of mining projects, construction of house building projects, installation of mechanical and electrical equipment, anti-corrosion insulation engineering, steel structure engineering, foundation and infrastructure engineering, installation of pressure pipes, lifting machinery installation and maintenance, drilling and freezing engineering construction, construction services, building curtain wall construction, construction of building improvement and decoration engineering; machinery manufacture, non-standard part processing and production, sale of concrete products; mining and construction machinery and equipment leasing (if any of the above items is prohibited by laws and regulations, it shall not be carried out. For items subject to approval by laws and regulations, an approval must be obtained prior to its operation.)</p> <p>(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)</p>	Yongcheng industry cluster district (Houling Township) (永城市產業集羣區(侯嶺鄉))
22	Puyang City Economic Development Investment Company (濮陽市經濟發展投資公司)	2,687,377	3,090,484	<p>Its principal business scope includes investment, infrastructure and industrial project construction, land reserve development and management, project construction, project loans, operation and management of government funds, assets, capital, resources and financial credit fund and so on.</p> <p>(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)</p>	Court of Finance Bureau, Gucheng Road, Puyang City (濮陽市古城路財政局院內)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
23	Shangqiu City Development Investment Co., Ltd. (商丘市發展投資有限公司)	2,150,809	2,473,430	Its principal business scope includes real estate development; investment, operation and management for industrial, agricultural, high-tech industries, urban infrastructure projects (non-financial business); land consolidation and reserves.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 21, Guide South Road, Shangqiu City (商丘市歸德南路21號)
24	Sanmenxia Yellow River Pearl (Group) Co., Ltd. (三門峽黃河明珠(集團)有限公司)	1,961,704	2,255,960	Its principal business scope includes power generation, water supply (non-urban water supply), material trade, mechanical and electrical maintenance, housing leasing; technical advisory service; real estate development; flower cultivation and sale, and aquaculture (excluding those otherwise required by specific provisions of the state); operating products produced by the enterprise or members of the enterprise and related technology export business; operating production and scientific research required raw and auxiliary materials, machinery and equipment, instrumentation, spare parts and related technology export businesses of the enterprise or members of the enterprise; operating imported material processing, and supplied material and sample processing, supplied part assembling and compensation trade businesses. (If any of the above is subject to approval, no operations should be carried out before the approval is obtained)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Middle Section of Xiaoshan Road, Sanmenxia City, Henan Province (河南省三門峽市崑山路中段)
25	Anyang City Finance Bureau (安陽市財政局)	1,876,433	2,157,898	It's a government agency legal person according to the Organization Code Certificate issued by Anyang City Quality and Technology Supervision Bureau (安陽市質量技術監督局)	Yongming Road, Eastern Administration Zone, Wenfeng District, Anyang City, Henan Province (河南省安陽市文峰區行政東區永明路)

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
26 Anyang Economic Development Group Co., Ltd. (安陽經濟開發集團有限公司)	1,858,189	2,136,918	<p>Its principal business scope includes equity participation, shareholding investment and entrusted loans; investment in land development and consolidation projects; building material sale (if any of the above is subject to approval by laws, regulations and provisions of the state council before operation with valid certificates, no operations should be carried out before the approval is obtained).</p> <p>(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)</p>	Finance Bureau Complex Building, Yongming Road, Wenfeng District, Anyang City (安陽市文峰區永明路財政局綜合樓)
27 Luohe City administrative state-owned asset management center (Luohe City Finance Bureau Government and Social Capital Cooperation Management Center) (漯河市行政事業國有資產管理中心(漯河市財政局政府和社會資本合作管理中心))	1,809,700	2,081,155	<p>Its principal business scope includes implementation of duties of public welfare enterprise investors for replacement and reorganization of state-owned assets of municipal administrative institutions, market-oriented operation of variable real estate rights and equity interests in investment process, city government and social capital cooperation project policy research, project reserves, business guidance, project evaluation, information management, promotion and training, supervision and guidance.</p> <p>It's a public institution legal person according to the Legal Person's Registration of Institutions issued by Luohe City Institutional Registration Authority.</p>	South Section of Huangshan Road, Yancheng District, Luohe City, Henan Province (河南省漯河市郾城區黃山路南段)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
28	Guodian Zhumadian Thermal Power Co., Ltd. (國電駐馬店熱電有限公司)	1,636,338	1,881,789	<p>Its principal business scope includes power generation, heating production and operation; power generation and heating project construction and development; coal purchase and sale; power purchase and sale business.</p> <p>(For the above-mentioned scope, no operation is allowed for those prohibited by national laws and regulations; for those only allowed to operate subject to approval by national laws and regulations, only operation within period and scope permitted in valid approval documents is allowed, and no operations should be carried out before the approval is obtained)</p> <p>(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)</p>	No. 1318, Yicheng Avenue, Economic Development Zone, Zhumadian City (駐馬店市經濟開發區驛城大道1318號)
29	Anyang Chemical Industry Group Co., Ltd. (安陽化學工業集團有限公司)	1,349,045	1,551,402	<p>Its principal business scope includes production of fertilizer and chemical raw materials (excluding those subject to national specific approval). The following are limited to operation by branches: mechanical processing, engineering construction, transportation, chemical design, business, catering services; products, technology, equipment production and operation and related import and export business of other members of the Group. Chinese cuisine and accommodation. Contracting fertilizer plant project assisting Vietnam and tender for international projects in China; export of equipment and materials required for the above overseas projects; external dispatch of the labor required for implementation of the above overseas projects.</p> <p>(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)</p>	Zhangwu Street, Long'an District, Anyang City (安陽市龍安區彰武街)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
30	Yongcheng Jingchuang Industrial Co., Ltd. (永城精創實業有限公司)	1,326,016	1,524,918	Its principal business scope includes sale of coal and products; washing and processing of anthracites; transportation and sale of its byproducts; metal and metal mines (except for those restricted or limited for operation by the state); building materials (excluding wood), chemical products (excluding dangerous goods), other mechanical equipment and electronic products, rubber products, textiles, clothing and daily necessities sale  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Hansongyuan Village, Chenji Town, Yongcheng City (永城市陳集鎮韓松園村)
31	Puyang County Finance Bureau (濮陽縣財政局)	1,005,079	1,155,841	It's a government agency legal person according to the Organization Code Certificate issued by Puyang County Quality and Technology Supervision Bureau (濮陽縣質量技術監督局)	Opposite to the Government, South of East Section of Hongqi Road, Puyang County (濮陽縣紅旗路東段路南政府對過)
32	Henan Energy and Chemical Industry Group Finance Co., Ltd. (河南能源化工集團財務有限公司)	894,932	1,029,172	Its principal business scope includes financial and financing consultancy for member units, credit certification and related consultancy and agency business; assisting member units to achieve receipt and payment of transaction payments; approved insurance agency business; providing security for member units; entrusted loans and commissioned investment between member units; note acceptance and discounting; settlement of internal transfer between member units and corresponding settlement and clearing plan design; deposits of the member units; absorption of loans from member units; loans and financial leasing for member units; interbank lending; equity investment in financial institutions; financial leasing of member units' products; other businesses approved by the China Banking Regulatory Commission.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Level 17, Guolong Building, CBD Business West Third Street, Zhengdong New District, Zhengzhou City (鄭州市鄭東新區CBD商務西三街(國龍大廈)17層)
33	Puyang City Finance Bureau (濮陽市財政局)	876,085	1,007,498	It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Puyang City Quality and Technology Supervision Bureau (濮陽市質量技術監督局)	No. 260, Gucheng Road, Puyang City (濮陽市古城路260號)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
34	Yongcheng City Financial Investment Development Co., Ltd. (永城市金財投資發展有限公司)	812,698	934,603	Its principal business scope includes industry, agriculture, high-tech industry, urban infrastructure investment and operation (non-financial)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No.33, Dongfang Avenue, Dongcheng District, Yongcheng City (永城市東城區東方大道33號)
35	Henan Tianguan Enterprise Group Co., Ltd. (河南天冠企業集團有限公司)	740,259	851,298	Its principal business scope includes production and sale of denatured fuel ethanol, production and sale of acetone, butanol, polyol and fully biodegradable plastics, production and sale of biodiesel (only limited to branches), sale of chemical products (operation with effective license), sale of vital gluten and feeds, production of acetic acid and acetaldehyde (operation with effective license), operating products produced by the enterprise or members of the enterprise and related technology export business; operating production and scientific research required raw and auxiliary materials, machinery and equipment, instrumentation, spare parts and related technology export businesses of the enterprise or members of the enterprise; operating imported material processing, and supplied material and sample processing, supplied part assembling and compensation trade businesses  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 1, Tianguan Avenue, Ecological Industrial Park, Nanyang City (南陽市生態工業園區天冠大道1號)
36	Anyang Water Group Corporation (安陽水務集團公司)	672,665	773,564	Its principal business scope includes tap water.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Tiexi Road, Yindu District, Anyang City (安陽市殷都區鐵西路)



	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
37	Luohe City Guoxin Asset Operation Center (漯河市國信資產運營中心)	663,849	763,427	Its principal business scope includes engaging in non-financial investment activities, property custody activities; housing leasing. (If any of the above is subject to administrative approval, no operations should be carried out before the approval is obtained)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 100, Renmin East Road, Zhao Ling District, Luohe City (漯河市召陵區人民東路100號)
38	Xinyang City Development Investment Co., Ltd. (信陽市發展投資有限公司)	654,268	752,408	Its principal business scope includes investment in state-owned assets authorized by the government (within the scope permitted by the national laws and regulations), operation and revenue management; individual establishment of wholly state-owned limited companies; shareholding, equity participation in establishment of limited companies or stock companies; state-owned capital preservation and value-added supervision, providing loan guarantees for enterprises; issuance of corporate bonds with approval, carrying out agent investment for enterprises and construction project consultancy; providing restructuring, reorganization, listing and other planning advisory services for enterprises, providing capital assessment and verification, corporate registered trademark, advertisement introduction services for enterprises.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Level 10, Bank of Xinyang, New Tenth Street, Yangshan New District, Xinyang City (信陽市羊山新區新十街信陽銀行十樓)
39	Zhoukou City Economic and Technological Development Zone Tianbao Industrial Development Corporation (周口市經濟技術開發區天寶實業發展總公司)	615,257	707,546	Its principal business scope includes sale of livestock products, chemical products (excluding flammable, explosive, dangerous goods, prohibited goods), mechanical and electrical products (excluding cars), general merchandise, building materials, furniture, office equipment, agricultural machinery products, agricultural vehicles.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Taihao Road, Zhoukou City (周口市太昊路)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
40	Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司)	570,700	656,305	Its principal business scope includes production and sale of rubber products, new product research and development of rubber products, technology development, technology consultancy, technology promotion, technology transfer, sale of chemical products (excluding flammable, explosive, dangerous goods, easy drugs), hardware and electrical equipment, auto parts, building materials, metal and metal mines, communications terminal equipment, mining accessories and related products, non-metallic mineral and its products, engaging in goods and technology import and export business, general cargo. (Except for projects that can only be operated with approval and permit or are prohibited from operating by provisions of the national laws and regulations)	No. 109, Zhoutian Road, Kaifeng New District (開封新區周天路109號)
41	Anyang City Yindu District Finance Bureau (安陽市殷都區財政局)	517,692	595,345	(For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority) It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Anyang City Yindu District Organization Committee Office (安陽市殷都區機構編制委員會辦公室)	East of Middle Section, Meidong Road, Anyang City (安陽市梅東路中段路東)
42	Hebi City Shancheng District Finance Bureau (鶴壁市山城區財政局)	456,579	525,066	It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Hebi City Quality and Technology Supervision Bureau (鶴壁市質量技術監督局)	South Section of Shancheng Road, Shancheng District, Hebi City (鶴壁市山城區山城路南段)
43	Anyang City Hengda Highway Development Co., Ltd. (安陽市恒達公路發展有限責任公司)	449,682	517,134	Its principal business scope includes highway engineering general contracting, bridge engineering specialized contracting, highway pavement engineering specialized contracting, highway roadbed engineering specialized contracting, highway bridge maintenance. (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Level 4, Tengfei Merchants Building, No. 252, Tiexi Road, Yindu District, Anyang City (安陽市殷都區鐵西路252號騰飛招商大廈四樓)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
44	Anyang County Finance Bureau (安陽縣財政局)	344,137	395,757	It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Anyang County Organization Committee Office (安陽縣機構編制委員會辦公室)	No. 75, Dengta Road, Anyang City (安陽市燈塔路75號)
45	Anyang City Wenfeng District Finance Bureau (安陽市文峰區財政局)	269,809	310,280	It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Anyang City Wenfeng District Organization Committee Office (安陽市文峰區機構編制委員會辦公室)	West of Intersection of Dongfeng Road and Dahutong, Wenfeng District, Anyang City, Henan Province (河南省安陽市文峰區東風路與大胡同交叉口路西)
46	Anyang City Beiguan District Finance Bureau (安陽市北關區財政局)	269,809	310,280	It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Anyang City Beiguan District Organization Committee Office (安陽市北關區機構編制委員會辦公室)	No. 1, Yong'an East Street, Beiguan District, Anyang City (安陽市北關區永安東街1號)
47	Anyang City Long'an District Finance Bureau (安陽市龍安區財政局)	269,809	310,280	It's a government agency legal person according to the Unified Social Credit Code Certificate issued by Anyang City Quality and Technology Supervision Bureau (安陽市質量技術監督局頒發) Its primary business activities for the economy include the provision of financial investment services, finance, investment and fund management for technological reform.	No.3, Lane 1, Minhang Road, Beiguan District, Anyang City, Henan Province (河南省安陽市北關區民航路一巷三號)
48	Luohe City Economic Development Investment Corporation (漯河市經濟發展投資總公司)	221,283	254,476	It's a public institution legal person according to the Unified Social Credit Code Certificate issued by Luohe City Economic Development Investment Corporation	No. 30, Tianshan Road, Yancheng District, Luohe City, Henan Province (河南省漯河市鄭城區天山路30號)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
49	Zhoukou City Housing Construction and Development Company (周口市房屋建設開發公司)	205,086	235,849	Its principal business scope includes real estate development and management  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Chuanhui Industrial Agglomeration Area, Zhoukou City (周口市川匯產業集聚區)
50	Puyang High-tech Industrial Development Zone Investment Company (濮陽高新技術產業開發區投資公司)	198,866	228,696	Its principal business scope includes real estate investment, enterprise technological transformation and borrowing, investment and construction of urban road, water supply, gas supply, transportation, energy infrastructure project.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	West Section, Huanghe Road, Puyang City (濮陽市黃河路西段)
51	Puyang City Yupu Asset Management Co., Ltd. (濮陽市豫濮資產運營有限公司)	177,367	203,972	Its principal business scope includes operation and management of state-owned assets (equity) according to authority by the municipal Commission on State-Owned Assets Supervision and Administration; file management service.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 116, Shengli West Road, Hualong District, Puyang City (濮陽市華龍區勝利西路116號)
52	Henan Province Xinxiang Hotel (河南省新鄉賓館)	162,772	187,188	Its principal business scope includes tourism, sauna, beauty, hairdressing, foot bathing; swimming service; catering service; clothes washing; general merchandise, clothing retail; housing leasing.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 33, Middle Section of Pingyuan Road (平原路中段33號)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
53	Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司)	157,448	181,065	Its principal business scope includes development. Production and sale of airborne products (except for pre-licensing projects), auto parts products, mechanical and electrical products, building decoration materials (excluding hazardous chemicals) and related technical advisory and technical services, and foreign trade business for the above products.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 168, Jianshe Middle Road, Xinxiang City (新鄉市建設中路168號)
54	Henan Jinkai Group Yanhua Chemical Co., Ltd. (河南晉開集團延化化工有限公司)	152,124	174,942	Its principal business scope includes liquid anhydrous ammonia, chemical fertilizers, methanol, sulfur, plastic product production and sale; thermal power, mechanical casting, and heating.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 19, Xinyan Street, Yanjin County, Henan Province (河南省延津縣新延街19號)
55	Puyang City Hualong District Economic and Technological Development Company (濮陽市華龍區經濟技術開發公司)	139,744	160,705	Its principal business scope includes enterprise technical transformation funds, investment and operation of agriculture, industry, commerce, service industry, high and new technology industry, urban infrastructure construction projects, building material sale, landscaping.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Middle Section of Daqing Road, Puyang City (濮陽市大慶路中段)
56	Puyang City Comprehensive Development Co., Ltd. (濮陽市城市綜合開發有限公司)	118,245	135,981	Its principal business scope includes real estate development and sale; housing leasing; municipal engineering; engineering consultancy services; property management; building material sale.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Middle Section of Renmin Road, Puyang City (濮陽市人民路中段)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
57	Xinxiang City Jiuzhou Hotel (新鄉市九州賓館)	91,274	104,965	Its principal business scope includes guest rooms, large-scale catering (Chinese food cooking and sale, including cold dishes, excluding decorative cakes and raw food seafood); prepackaged food retail, public telephone service, clothing sales; singing and dancing, cigarettes, cigar retail; housing rental services.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 12, Pingyuan Road, Xinxiang City (新鄉市平原路12號)
58	Huixian City Highway Administration Bureau Mechanical Engineering Department (輝縣市公路管理局機械工程處)	76,062	87,471	Its principal business scope includes roadbed, pavement, bridge and culvert, tunnel construction, prefabricated bridge and culvert part processing and maintenance. (The above should be operated with qualification certificate)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	West of 1000 Meters North from Turnplate of Baiquan Small Village, Huixian City (輝縣市百泉小屯轉盤北1000米路西)
59	Puyang Hotel (濮陽賓館)	59,122	67,991	Its principal business scope includes catering service (including cold dishes and decorative cakes), washing, hotels, shopping malls, general merchandise retail, printing and photocopying, conference training service.  (For businesses subject to approval by laws and regulations, no operations should be carried out before the approval is obtained)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	No. 199, West Section of Jianshe Road, Puyang City (濮陽市建設路西段199號)

	Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
60	Kaifeng Economic and Technological Development (Group) Company (開封經濟技術開發(集團)公司)	57,070	65,631	Its principal business scope includes Kaifeng Economy and Technology Development District infrastructure investment, agriculture synthesis exploitation. (Except for projects that can only be operated with approval and permit or are prohibited from operating by provisions of the national laws and regulations)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Jinan Road, Kaifeng City (開封市晉安路)
61	Henan Puyang State Grain Storage (河南濮陽國家糧食儲備庫)	11,824	13,598	Its principal business scope includes grain, by-products from grain and oil, storage, purchase, transfer, wholesale, retail of cotton (excluding seed cotton); wholesale, retail of prepackaged food; storage, transfer of production of fertilizer, general merchandise, household electrical appliances, motorcycles, machinery and equipment, chemicals (excluding flammable, explosive, dangerous goods); storage, transfer of agricultural materials (excluding highly hazardous pesticides); engaging in operation of import and export business of products and technologies; grain machinery and equipment leasing; housing leasing; sugar and alcohol operation; loading and unloading service; trans-shipment of refractory materials, timber.  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	South of 500 Meters East from Intersection of Shihua Road and Jingkai Avenue, Hualong District, Puyang City (濮陽市華龍區石化路與京開大道向東500米路南)
62	Xinxiang City Real Estate Company Housing Repair Construction and Installation Works Agency (新鄉市房產公司房屋修繕建築安裝工程處)	911	1,048	Its principal business scope includes industrial and civil project construction; pipelines and equipment installation, indoor and outdoor decorations, construction equipment leasing, electromechanical installation (operated with qualification certificate); housing leasing service (excluding the leases prohibited by laws and regulation) (For items subject to license, the operating could only be carried out with valid license)  (For the items subject to approval according to laws, the operating activities could only be carried out upon approval from relevant authority)	Northeastern Corner of Intersection of North Main Road and Jiefang Road (北幹道與解放路交叉口東北角)

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus and 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 “4. Other Information — I. Consents” in Appendix VII to this prospectus;
- (c) copies of the material contracts referred to in the paragraph entitled “2. Further Information about Our Business — A. Summary of Our Material Contracts” 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 Paul Hastings at 21-22/F, Bank of China Tower, 1 Garden Road, 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 this prospectus:

- (a) the Articles of Association;
- (b) the accountants’ report from KPMG in respect of the combined financial information of the business carried out by the Thirteen City Commercial Banks for the period from January 1, 2014 to December 22, 2014, the text of which is set forth in Appendix IA to this prospectus;
- (c) the accountants’ report from KPMG in respect of consolidated financial information of the Group for the period from December 23, 2014 to December 31, 2014 and each of the years ended December 31, 2015 and 2016, the text of which is set forth in Appendix IB to this prospectus;
- (d) the report from KPMG in respect of the unaudited pro forma financial information of the Group, the text of which is set forth in Appendix III to this prospectus;
- (e) the audited combined financial statement of the business carried out by the Thirteen City Commercial Banks for the period from January 1, 2014 to December 22, 2014;
- (f) the audited consolidated financial statement of the Group for the period from December 23, 2014 to December 31, 2014 and each of the years ended December 31, 2015 and 2016;
- (g) the material contracts referred to in the paragraph entitled “2. Further Information about Our Business — A. Summary of Our Material Contracts” in Appendix VII to this prospectus;
- (h) the written consents referred to in the paragraph entitled “4. Other Information — I. Consents” in Appendix VII to this prospectus;
- (i) the service contracts referred to in the paragraph entitled “3. Further Information about the Substantial Shareholders, Directors, Management and Staff — C. Particulars of Service Contracts” in Appendix VII to this prospectus;



- (j) the legal opinions issued by King & Wood Mallesons, the legal advisors of our Bank as to the PRC laws, in respect of, among other things, the general matters and property interests of our Group;
- (k) the legal opinion issued by Ms. TAM, Winnie, SC, our legal adviser as to, among others, the use of the name of our Bank; and
- (l) the following PRC laws and regulations, 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;
  - (vi) the PRC Arbitration Law;
  - (vii) the PRC Civil Procedure Law; and
  - (viii) the PRC Commercial Banking Law.
- (m) the statement of particulars of the Selling Shareholders.



**中原銀行股份有限公司**  
ZHONGYUAN BANK CO., LTD.