中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

中國郵儲

中國郵政儲蓄銀行股份有限公司
Postal Savings Bank of China Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)
Stock Code: 1658

GLOBAL OFFERING

Joint Sponsors

CICC 中金香港证券
Morgan Stanley
BofA Merrill Lynch
Goldman Sachs
J.P.Morgan

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Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

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BOC INTERNATIONAL
海通國際 HAITONG
農銀國際 ABC INTERNATIONAL
招银国际 CMB INTERNATIONAL
首控證券
新鴻基金融集團 SUN HUNG KAI FINANCIAL
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中國銀河國際 CHINA GALAXY INTERNATIONAL
中信建投國際 China Securities International
NOMURA
Deutsche Bank
CITIC CLSA Securities
華融金控 HUARONG FINANCIAL

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

中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

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中國郵政儲蓄銀行股份有限公司

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

GLOBAL OFFERING

Number of Offer Shares in the Global Offering	:	12,106,588,000 H Shares (subject to the Over-allotment Option)
Number of Offer Shares in the International Offering	:	11,501,258,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	605,330,000 H Shares (subject to adjustment)
Maximum Offer Price	:	HK$5.18 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong Dollars and subject to refund)
Nominal value	:	RMB1.00 per H Share
Stock code	:	1658

Joint Sponsors

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CICC 中金香港证券 UBS BofA Merrill Lynch J.P.Morgan Morgan Stanley Goldman Sachs
DBS CMS 招商证券 HSBC citi

Joint Bookrunners and Joint Lead Managers

交銀國際 BOCOM International 建银国际 CCB International ICBC 工银国际 BOC INTERNATIONAL 海通國際 HAITONG 農銀國際 ABC INTERNATIONAL 招银国际 CMB INTERNATIONAL 首控證券
新鴻基金融集團 SUN HUNG KAI FINANCIAL 安信國際 ESSENCE INTERNATIONAL 中國銀河國際 CHINA GALAXY INTERNATIONAL 中信建投國際 China Securities International NOMURA Deutsche Bank 中信證券 CITIC CLSA Securities 華融金控 HUARONG FINANCIAL

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

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

The Offer Price is expected to be fixed by agreement between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us on the Price Determination Date, which is expected to be on or around September 21, 2016 (Hong Kong time) and, in any event, not later than September 22, 2016 (Hong Kong time). The Offer Price will be not more than HK$5.18 per H Share and is currently expected to be not less than HK$4.68 per H Share. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$5.18 per Hong Kong Offer Share, unless otherwise announced, together with a brokerage fee of 1%, a Hong Kong Stock Exchange trading fee of 0.005% and an SFC transaction levy of 0.0027%, subject to refund if the Offer Price is lower than HK$5.18.

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

If, for any reason, the Offer Price is not agreed on or before September 22, 2016 between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us, the Global Offering will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and that there are different risk factors relating to investment in the PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of our Shares. Such differences and risk factors are set forth in "Risk Factors," "Supervision and Regulation," "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association." The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Sponsors and the Joint Representatives (on behalf of, among others, the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set forth in "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination."

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

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

September 14, 2016

Latest time for completing electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on Tuesday, September 20, 2016
Application lists open[3]	11:45 a.m. on Tuesday, September 20, 2016
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Tuesday, September 20, 2016
Latest time for giving **electronic application instructions** to HKSCC[4]	12:00 noon on Tuesday, September 20, 2016
Latest time for completing payment for **White Form eIPO** applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Tuesday, September 20, 2016
Application lists close[3]	12:00 noon on Tuesday, September 20, 2016
Expected Price Determination Date[5]	Wednesday, September 21, 2016

(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**[6] and the Bank's website at **www.psbc.com**[6] on	Tuesday, September 27, 2016

(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, September 27, 2016
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, September 27, 2016

H Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before[7] . . . . Tuesday, September 27, 2016

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be despatched on or before[8] [9] . . . . Tuesday, September 27, 2016

Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on . . . . Wednesday, September 28, 2016

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** 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, September 20, 2016, the application lists will not open on that day. Please refer to the section headed "How to Apply for the 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 the 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, September 21, 2016, and, in any event, not later than Thursday, September 22, 2016. If, for any reason, the Offer Price is not agreed between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us on or before Thursday, September 22, 2016, 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 9:00 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 Service Limited, from 9:00 a.m. to 1:00 p.m. on Tuesday, September 27, 2016. 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 opt 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. Despatch/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.

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 Underwriting 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, September 28, 2016). 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.

IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, or any other persons or parties involved in the Global Offering. Information contained on our website at www.psbc.com does not form part of this prospectus.

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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 H Shares are set out in "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in H Shares.

OVERVIEW

We are a leading retail bank in China with the largest distribution network, largest customer base and superior asset quality. Established in 2007, we are the youngest Large Commercial Bank and have significant growth potential. As of March 31, 2016, we had total assets of RMB7,707.6 billion, total deposits of RMB6,732.4 billion and total loans of RMB2,665.8 billion, ranking fifth, fifth and seventh among PRC commercial banks, respectively. According to *The Banker's* list of "Top 1000 World Banks," we ranked 22nd in the world in terms of total assets as of December 31, 2015.

We are distinct from other commercial banks in China in a number of important respects. Firstly, we have a unique operational model consisting of both directly-operated outlets and agency outlets which are post offices owned by China Post Group. Our distribution network is the largest in China's banking industry with the widest geographical coverage, which not only enables us to deliver more convenient financial services to customers and to have access to long-term, stable and low-cost funding, but also creates significant opportunities for product distribution and cross-selling. Secondly, we strategically focus on providing financial services to communities, SMEs and Sannong customers and are committed to meeting the financial needs of the most promising customers during China's economic transformation, and will significantly benefit from the opportunities brought by China's on-going economic transformation. Thirdly, we believe that our distinct asset structure, superior asset quality and prudent approach to risks enable us to maintain flexibility to respond proactively to fluctuations in economic cycles.

Our distinctiveness includes the following:

- **Largest number of outlets among PRC commercial banks.** As of March 31, 2016, we had 40,057 outlets, including 8,301 directly-operated outlets and 31,756 agency outlets, covering all cities and 98.9% of the County Areas in China.

- **Largest retail customer base among PRC commercial banks.** As of March 31, 2016, we had 505 million retail customers, accounting for more than one-third of China's population.

- **Highest contribution of personal banking business to total deposits, total loans and total profit among Large Commercial Banks in China.** As of and for the year ended December 31, 2015, personal deposits represented 85.4% of our total deposits, personal loans represented 49.4% of our total loans, and profit before income tax of personal banking business represented 46.0% of our total profit before income tax, higher than the other Large Commercial Banks' average of 45.6%, 30.2% and 30.1%, respectively.

- **Significant funding cost advantage.** Our average cost of interest-bearing liabilities in 2015 was 1.94%, lower than the other Large Commercial Banks' average of 2.08%.

- **Superior asset quality and the highest allowance coverage ratio among Large Commercial Banks in China.** The majority of our assets are classified as low-risk assets, with very limited exposure to high-risk sectors such as over-capacity industries, local government financing vehicles and real estate industry. As of March 31, 2016, our NPL ratio was 0.81%, significantly lower than the other Large Commercial Banks' average of 1.73%, and our allowance coverage ratio was 286.71%, significantly higher than the other Large Commercial Banks' average of 154.73%.

We continually optimize our comprehensive risk management system and adhere to a prudent approach to risks. We have established a comprehensive risk management system covering credit risk, market risk, operational risk, liquidity risk and other risks. Our business expansion is underpinned by thorough risk assessment, and we do not engage in businesses with unfamiliar risks. We effectively manage risks through adopting a "barbell" strategy for our loan portfolio, pursuant to which large-sized enterprises and retail and small enterprise customers are our major target customers when we extend loans. As of March 31, 2016, our consumer loans and our small and micro enterprise loans accounted for 53.0% of our total loans, and our loans to large-sized enterprises accounted for 26.5% of our total loans. The average size of our consumer loans and our small and micro enterprise loans is small, which helps to diversify risk exposure. For our loans to large-sized enterprises, we carefully select high-quality customers and implement strict credit risk control measures. As of March 31, 2016, the NPL ratio of our large-sized enterprise loans was 0.01%. In recognition of our prudent risk management, we were awarded "Best Risk Management Bank of the Year" by *Financial News* in 2015.

Our success in pursuing a strategy to differentiate ourselves from other commercial banks in China is well demonstrated by our industry-leading performance. From 2013 to 2015, our total assets, total deposits, total loans and net profit recorded a CAGR of 14.4%, 10.0%, 28.7% and 8.4%, respectively, higher than the other Large Commercial Banks' average of 9.6%, 6.0%, 9.5% and 3.5%, respectively. In 2013, 2014 and 2015, our net interest margin was 2.67%, 2.92% and 2.78%, respectively, and our net interest spread was 2.66%, 2.87% and 2.71%, respectively.

Under our operational model consisting of both directly-operated outlets and agency outlets, agency outlets provide deposit taking services to customers under our name, for which we pay deposit agency fees to China Post Group. During the Track Record Period, deposit agency fees were the largest component of our operating expenses. In 2013, 2014, 2015 and for the three months ended March 31, 2016, deposit agency fees amounted to RMB46.1 billion, RMB50.4 billion, RMB54.4 billion and RMB14.7 billion, representing 45.4%, 44.1%, 44.0% and 47.2% of our operating expenses, respectively. For the same periods, the actual Composite Rate of the deposit agency fees was 1.44%, 1.43%, 1.42% and 1.43%, respectively. For details about the actual Composite Rate of the deposit agency fees, see "Connected Transactions" on pages 337 to 372 of this prospectus. In 2013, 2014 and 2015, our cost-to-income ratio was 65.6%, 60.9% and 60.7%, respectively, higher than the other Large Commercial Banks' average of 31.0%, 30.1% and 29.2%, respectively.

We have solid growth potential by leveraging multiple growth drivers. Our customers, including retail customers, small and micro enterprises and Sannong customers, have outstanding growth potential, and their demand for financial services is expected to grow continually along with China's economic transformation. We will grow together with our customers and continue to improve our capability to deliver comprehensive financial services. We are still in a growth stage, with room to improve fee- and commission-based business, loan-to-deposit ratio and cost-to-income ratio. Moreover, compared with other Large Commercial Banks, we have the largest number of, and the most diversified group of, strategic investors, and the multi-faceted cooperation with these investors has provided our business development with abundant resources and strong momentum.

OUR STRENGTHS

Our strengths include:

- A leading retail bank in China with the largest distribution network and customer base;
- Serving the most promising customers during China's economic transformation;
- Superior asset quality and prudent risk management;
- A strong deposit franchise and significant funding advantage;
- Advanced information technology capabilities providing comprehensive support for business development;
- Strong support from our controlling shareholder and extensive cooperation with our Strategic Investors; and
- Experienced management team and talented and motivated employees.

For details of our strengths, see "Business — Our Strengths" on pages 200 to 208 of this prospectus.

OUR STRATEGIES

Our strategic vision is to become the most trusted and valuable first-tier large retail bank. Based on our 505 million retail customers and 40,057 outlets, we will continually expand and develop various high-quality financial products and services to deepen customer penetration and enhance customer retention. Through our cooperation with a variety of institutions including China Post Group and our Strategic Investors, we will build up a financial ecosystem serving vast retail customers in China through cross-selling and scenario-based "Internet+" initiatives to meet their growing and evolving financial needs and demand for non-financial value-added services.

Our strategic goal is to achieve sustainable growth while providing a competitive return for our Shareholders. We seek to achieve our goal through the following strategies.

- Pursue our philosophy of "One Body Two Wings" to solidify the strengths of our core business and further develop new businesses
  - Strengthen and upgrade retail banking business;
  - Develop corporate banking business with synergy effects;
  - Transform and innovate treasury business; and
  - Accelerate growth for fee- and commission-based businesses.
- Upgrade our fundamental capabilities and achieve sustainable development
  - Fully develop our distinct "online + offline" Internet financial services platform;
  - Enhance cost control and improve operational efficiency;
  - Continually enhance risk and capital management capabilities;
  - Adhere to the "technology-led" strategy; and
  - Promote talent management strategy.

For details of our strategies, see "Business — Our Strategies" on pages 208 to 214 of this prospectus.

OPERATIONAL MODEL OF DIRECTLY-OPERATED AND AGENCY OUTLETS

Since our establishment in 2007, we have established a business model operating through both directly-operated outlets and agency outlets upon approvals of the State Council and the CBRC. Agency outlets are agency business institutions that provide commercial banking services entrusted by us. We and China Post Group entered into an agency banking businesses framework agreement on August 8, 2012, which was replaced by the new agency banking businesses framework agreement dated September 7, 2016. Pursuant to applicable regulatory requirements and the agency banking businesses framework agreements dated August 8, 2012 and September 7, 2016, respectively, agency outlets provide deposits taking, financial settlement, financial agency and other services under our name. We pay agency fees to Postal Affiliates for these services. For regulatory requirements related to our operational model of directly-operated and agency outlets, see "Supervision and Regulation — Industry Access Requirements — Branches and Business Network." For details of the scope of agency banking businesses, and pricing policies and amount of agency fees under the agency banking businesses framework agreement dated September 7, 2016, currently effective, see "Connected Transactions" on pages 337 to 372 of this prospectus.

Leveraging our operational model of directly-operated outlets and agency outlets, we have a distribution network with the largest number of outlets and the widest geographical coverage among PRC commercial banks. As of March 31, 2016, 31,756 out of our total 40,057 outlets were agency outlets. Through taking deposits, agency outlets provide a long-term and stable funding source for us. As of December 31, 2013, 2014 and 2015 and March 31, 2016, personal deposits taken by our agency outlets accounted for 72.9%, 73.1%, 73.2% and 73.6%, respectively, of our total personal deposits. For details of our agency outlets, see "Business — Distribution Channels — Outlet Network" on pages 253 to 256 of this prospectus.

Our branches and the Postal Affiliates also entered into separate agency agreements at various levels, specifying the principal-agent relationship as well as the rights, responsibilities and obligations of both parties. The Postal Affiliates directly manage the agency outlets' daily operation at the operating premises. We provide guidance on, inspect and supervise the business development, institutional management, personnel management and risk management of our agency outlets, and integrate them into our comprehensive risk management system pursuant to applicable regulatory requirements. The Postal Affiliates shall be liable for the loss caused by legal proceedings involved by, or mistakes made by, agency outlets, except that we are liable for the loss caused by reasons attributable to our Bank, such as the deficiencies in our rules and procedures. The Postal Affiliates are liable for the losses caused by fines or confiscation of illegal gains due to agency outlets' non-compliance incidents or violations of laws. For details of risks relating to our agency outlets, see "Risk Factors — Risks Relating to Our Business — We face risks relating to our agency outlets" on page 45 of this prospectus. For the risk management structure and measures for our agency outlets, see "Risk Management — Risk Management Organizational Structure — Risk Management Structure at Our Agency Outlets" on pages 300 to 302 of this prospectus.

CONTROLLING SHAREHOLDER

As of the Latest Practicable Date, China Post Group directly held approximately 83.08% of our issued share capital. China Post Group is our controlling shareholder under the Listing Rules. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, China Post Group will hold approximately 69.23% of our enlarged issued share capital (approximately 67.50% if the Over-allotment Option is fully exercised). China Post Group is principally engaged in domestic and international mail delivery, distribution of publications such as newspapers, journals and books, stamp issuance, postal remittance, confidential correspondence, postal financial business, postal express delivery, postal logistics, e-commerce, postal agency and other businesses conducted in accordance with law. For details, see "Relationship with China Post Group" on pages 326 to 336 of this prospectus and "Substantial Shareholders" on pages 398 to 400 of this prospectus.

In order to avoid potential competition, China Post Group has provided a non-compete undertaking in favor of our Bank dated September 7, 2016, having undertaken that it will not be engaged in any competing commercial banking business within or outside the PRC. For details about the non-compete undertaking, see "Relationship with China Post Group" on pages 326 to 336 of this prospectus.

We have carried out certain transactions with China Post Group and its associates, including the proposed transactions contemplated under the Trademark Licensing Agreement dated September 5, 2016, Comprehensive Services Framework Agreement dated September 6, 2016, Land Use Rights and Properties Leasing Framework Agreement dated September 2, 2016 and Agency Banking Businesses Framework Agreement dated September 7, 2016. These transactions will constitute continuing connected transactions of our Bank under the Listing Rules. We have applied for, and the Hong Kong Stock Exchange has granted us, waivers from strict compliance with certain requirements under the Listing Rules in respect of the non-exempt continuing connected transactions. For further information about our connected transactions, see "Connected Transactions" on pages 337 to 372 of this prospectus.

STRATEGIC INVESTORS

In December 2015, we introduced ten Strategic Investors, namely, UBS, China Life, China Telecom, CPPIB, Ant Financial, JPMorgan, FMPL, IFC, DBS Bank and Shenzhen Tencent. We issued an aggregate of 11,604 million new Shares to the ten Strategic Investors that made investments in an aggregate amount of approximately RMB45.14 billion and hold in aggregate approximately 16.92% of our issued share capital before the completion of the Global Offering. Upon completion of the investments by Strategic Investors, our registered capital increased to RMB68.604 billion. We have also entered into Strategic Cooperation Agreements with Strategic Investors and/or their related parties. For details of our Strategic Investors and our strategic cooperation with the Strategic Investors, see "Our Strategic Investors" on pages 182 to 195 of this prospectus.

SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary of historical financial statements set forth below in conjunction with our consolidated financial statements set forth in "Appendix I — Accountant's Report" to this prospectus, which have been prepared in accordance with IFRS, together with "Assets and Liabilities" and "Financial Information" of this prospectus. The summary of historical consolidated income statement data for the years ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016 and the historical consolidated balance sheet data as of December 31, 2013, 2014 and 2015 and March 31, 2016 set forth below are derived from "Appendix I — Accountant's Report" to this prospectus.

Summary Historical Consolidated Income Statement Data

	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(in millions of RMB)				
Interest income	242,145	281,780	300,561	75,234	72,269
Interest expense	(103,172)	(113,964)	(121,302)	(30,262)	(30,569)
Net interest income	**138,973**	**167,816**	**179,259**	**44,972**	**41,700**
Fee and commission income	11,682	13,112	16,272	4,019	5,001
Fee and commission expense	(5,717)	(6,633)	(7,600)	(1,835)	(2,038)
Net fee and commission income	**5,965**	**6,479**	**8,672**	**2,184**	**2,963**
Net trading gains/(losses)	(209)	128	275	(139)	563
Net gains/(losses) on investment securities	(252)	(1,325)	946	117	2,012
Other operating income [(1)]	757	777	1,481	296	276
Operating income	**145,234**	**173,875**	**190,633**	**47,430**	**47,514**
Operating expenses [(2)]	(101,466)	(114,126)	(123,610)	(28,510)	(31,103)
Impairment losses on assets	(8,674)	(20,412)	(25,635)	(4,806)	(2,128)
Profit before income tax	**35,094**	**39,337**	**41,388**	**14,114**	**14,283**
Income tax expenses	(5,426)	(6,770)	(6,531)	(2,858)	(1,796)
Net profit	**29,668**	**32,567**	**34,857**	**11,256**	**12,487**

(1) Consists primarily of government subsidies income, leasing income, net exchange gain and precious metal sales income.

(2) Consists primarily of deposit agency fees, staff costs, other general operating and administrative expenses, business tax and surcharges, depreciation and amortization and others.

Our net interest income for the three months ended March 31, 2016 decreased compared to the same period of 2015, primarily due to decreased average yields on loans to customers, deposits and placements with banks and other financial institutions and fixed income investments attributable to the consecutive interest rate cuts by the PBOC in 2015 and adequate liquidity in the interbank market. For more details, see "Financial Information" on pages 467 to 537 of this prospectus.

Summary Historical Consolidated Balance Sheet Data

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(in millions of RMB)			
Assets				
Loans to customers, net [(1)]	1,463,260	1,832,067	2,412,595	2,604,111
Investment securities and other financial assets, net [(2)]	1,277,441	1,580,222	2,986,667	2,909,815
Cash and deposits with central bank	1,225,708	1,389,759	1,131,231	1,329,816
Deposits with banks and other financial institutions	1,044,604	730,217	324,137	194,782
Placements with banks and other financial institutions [(3)]	93,482	113,754	200,485	257,721
Financial assets held under resale agreements	387,187	557,523	148,868	303,954
Other assets [(4)]	82,769	94,783	92,381	107,435
Total assets	**5,574,451**	**6,298,325**	**7,296,364**	**7,707,634**
Liabilities				
Customer deposits	5,206,468	5,802,946	6,305,014	6,732,381
Deposits from banks and other financial institutions	25,160	40,619	91,351	196,671
Placements from banks and other financial institutions	12,255	18,264	70,859	75,120
Financial assets sold under repurchase agreements	75,494	115,918	394,817	275,063
Debt securities issued	—	—	24,973	24,974
Other liabilities [(5)]	114,027	132,669	138,519	129,621
Total liabilities	**5,433,404**	**6,110,416**	**7,025,533**	**7,433,830**
Equity				
Share capital	47,000	57,000	68,604	68,604
Capital reserve	3,448	3,448	36,887	36,887
Other reserves	66,236	82,163	106,153	105,639
Retained earnings	24,363	45,298	58,804	62,296
Non-controlling interests	—	—	383	378
Total equity	**141,047**	**187,909**	**270,831**	**273,804**
Total equity and liabilities	**5,574,451**	**6,298,325**	**7,296,364**	**7,707,634**

(1) For ease of reference, in this prospectus, we refer to loans and advances to customers as "loans" and "loans to customers."

(2) Investment securities and other financial assets consist of investment classified as receivables, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. Investment securities and other financial assets are net of the related allowance for impairment losses of nil, RMB2,272 million, RMB3,940 million and RMB3,245 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

(3) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB933 million, RMB1,093 million, RMB1,642 million and RMB124 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

(4) Consists primarily of derivative financial assets, property and equipment, interest receivable, accounts receivable and temporary payments, deferred tax assets and other assets. Other assets are net of the related allowance for impairment losses on accounts receivable and temporary payments of RMB413 million, RMB447 million, RMB231 million and RMB246 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

(5) Consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, interest payable, payables for agency services, employee benefit payable, taxes payable and other liabilities.

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

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Working capital loans	204,551	13.7%	241,022	12.8%	329,816	13.4%	343,510	12.9%
Fixed asset loans	488,095	32.7	510,238	27.2	551,483	22.3	562,272	21.1
Trade finance loans	14,950	1.0	51,978	2.8	98,750	4.0	121,733	4.6
Others[(1)]	1,222	0.1	1,078	0.1	931	0.0	889	0.0
Subtotal	708,818	47.5	804,316	42.9	980,980	39.7	1,028,404	38.6
Discounted bills	50,609	3.4	108,366	5.8	268,303	10.9	339,267	12.7
Personal loans								
Consumer loans:								
Residential mortgage loans	297,846	19.9	402,668	21.4	577,256	23.3	640,359	24.0
Other consumer loans	55,053	3.7	108,247	5.8	159,683	6.5	169,949	6.4
Personal business loans	237,486	15.9	286,971	15.3	304,930	12.3	303,460	11.4
Micro loans	123,719	8.3	134,477	7.2	136,207	5.5	138,876	5.2
Credit card overdrafts and others	19,074	1.3	30,703	1.6	44,494	1.8	45,439	1.7
Subtotal	733,178	49.1	963,066	51.3	1,222,570	49.4	1,298,083	48.7
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**

(1) Consists of a loan asset portfolio we purchased from a PRC commercial bank in 2010.

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by industry.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Transportation, storage and postal services	337,320	47.6%	345,867	43.0%	356,956	36.4%	361,480	35.1%
Manufacturing	98,732	13.9	117,350	14.6	152,310	15.5	162,236	15.8
Production and supply of electricity, gas and water	101,758	14.4	106,866	13.3	134,484	13.7	136,123	13.2
Financial services	4,848	0.7	44,604	5.5	86,576	8.8	109,191	10.6
Wholesale and retail	49,580	7.0	50,611	6.3	58,722	6.0	59,178	5.8
Construction	15,133	2.1	27,532	3.4	40,255	4.1	45,294	4.4
Real estate	20,064	2.8	27,297	3.4	41,113	4.2	40,936	4.0
Mining	22,953	3.2	25,756	3.2	41,712	4.3	39,035	3.8
Management of water conservancy, environment and public facilities	42,944	6.1	35,738	4.4	31,727	3.2	32,485	3.2
Leasing and commercial services	2,486	0.4	2,935	0.4	10,974	1.1	12,254	1.2
Agriculture, forestry, animal husbandry and fishery	4,329	0.6	7,194	0.9	9,276	0.9	9,123	0.9
Information transmission, computer services and software	1,914	0.3	3,659	0.5	4,479	0.5	6,349	0.6
Hotels and catering	3,928	0.6	3,918	0.5	3,481	0.4	3,550	0.3
Residential services and other services	1,469	0.2	2,134	0.3	2,043	0.2	1,966	0.2
Culture, sports and entertainment	654	0.0	1,469	0.2	1,701	0.2	1,735	0.2
Others(1)	706	0.1	1,386	0.1	5,171	0.5	7,469	0.7
Total corporate loans	**708,818**	**100.0%**	**804,316**	**100.0%**	**980,980**	**100.0%**	**1,028,404**	**100.0%**

(1) Consists primarily of public administration and social organizations, education, scientific studies and technology services, and health, social security and social welfare.

For details about our loan portfolio and asset quality, see "Assets and Liabilities" on pages 413 to 466 of this prospectus. For details of our off-balance sheet commitments, see "Financial Information — Off-balance Sheet Commitments" on pages 522 to 523 of this prospectus.

Selected Financial Ratios

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

	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Profitability indicators					
Return on average total assets (1)(2)	0.57%	0.55%	0.51%	0.71%	0.67%
Return on average net assets (1)(3)	23.19%	19.80%	15.20%	23.63%	18.44%
Net interest spread (1)(4)	2.66%	2.87%	2.71%	2.86%	2.36%
Net interest margin (1)(5)	2.67%	2.92%	2.78%	2.92%	2.35%
Net fee and commission income to operating income	4.11%	3.73%	4.55%	4.60%	6.24%
Cost-to-income ratio (6)	65.6%	60.9%	60.7%	56.1%	61.1%

(1) On an annualized basis with respect to the data for the three months ended March 31, 2015 and 2016.

(2) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.

(3) Represents net profit for the period as a percentage of average balance of total equity at the beginning and the end of the period.

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

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

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

Our net interest spread and net interest margin on an annualized basis decreased from 2014 to the first quarter of 2016, primarily due to decreased average yields on our loans and advances to customers and deposits and placements with banks and other financial institutions, which reflected the consecutive cuts in benchmark interest rates by the PBOC since November 2014 and adequate market liquidity. For more details, see "Financial Information — Results of Operations for the Three Months Ended March 31, 2015 and 2016" on pages 474 to 492 of this prospectus and "Financial Information — Results of Operations for the Years ended December 31, 2013, 2014 and 2015" on pages 492 to 512 of this prospectus.

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

	Regulatory requirement applicable as of December 31, 2015	As of December 31,			As of March 31,
		2013	2014	2015	2016
Capital adequacy indicators					
Core tier-1 capital adequacy ratio [1]	≥6.3%	7.72%	8.44%	8.53%	8.35%
Tier-1 capital adequacy ratio [2]	≥7.3%	7.72%	8.44%	8.53%	8.35%
Capital adequacy ratio [3]	≥9.3%	8.84%	9.56%	10.46%	10.26%
Total equity to total assets	—	2.53%	2.98%	3.71%	3.55%
Asset quality indicators					
Non-performing loan ratio [4]	≤5%	0.51%	0.64%	0.80%	0.81%
Allowance coverage ratio [5]	≥150%	382.94%	364.10%	298.15%	286.71%
Allowance to gross loans [6]	≥2.5%	1.97%	2.33%	2.40%	2.31%
Other indicators					
Loan-to-deposit ratio [7]	—	28.67%	32.32%	39.20%	39.60%

(1) Calculated by dividing core tier-1 capital, net of core tier-1 capital deductions, by risk-weighted assets. PRC commercial banks (other than systemically important banks) are required to maintain a core tier-1 capital adequacy ratio no lower than 5.5%, 5.9% and 6.3% as of December 31, 2013, 2014 and 2015, respectively. For the components of core tier-1 capital, core tier-1 capital deductions and risk-weighted assets under the Capital Administrative Measures (Provisional), see "Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards over Capital Adequacy Level" and "Financial Information — Capital Resources — Capital Adequacy."

(2) Calculated by dividing tier-1 capital, net of tier-1 capital deductions, by risk-weighted assets. PRC commercial banks (other than systemically important banks) are required to maintain a tier-1 capital adequacy ratio no lower than 6.5%, 6.9% and 7.3% as of December 31, 2013, 2014 and 2015, respectively. For the components of tier-1 capital, tier-1 capital deductions and risk-weighted assets under the Capital Administrative Measures (Provisional), see "Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards over Capital Adequacy Level" and "Financial Information — Capital Resources — Capital Adequacy."

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. PRC commercial banks (other than systemically important banks) are required to maintain a capital adequacy ratio no lower than 8.5%, 8.9% and 9.3% as of December 31, 2013, 2014 and 2015, respectively. For the components of total capital, capital deductions and risk-weighted assets under the Capital Administrative Measures (Provisional), see "Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards over Capital Adequacy Level" and "Financial Information — Capital Resources — Capital Adequacy."

(4) Calculated by dividing total NPLs by the gross loans to customers.

(5) Calculated by dividing total allowance for impairment losses on loans by total NPLs.

(6) Calculated by dividing total allowance for impairment losses on loans by gross loans to customers. PRC commercial banks (other than systemically important banks) should meet the minimum requirement of 2.5% by the end of 2016, and if any bank cannot do so, it should formulate its plan for measures to be taken to comply with the requirement and report to the CBRC. PRC commercial banks are required to meet this requirement no later than the end of 2018. We strictly comply with regulatory requirements, as well as our policies regarding provision of impairment allowance and accounting policies when we make impairment allowance for NPLs. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our allowance coverage ratio was higher than the minimum regulatory requirement of 150%, but our allowance to gross loan ratio was lower than 2.5% because our NPL ratio was relatively low. We plan to increase our allowance to gross loan ratio gradually from 2016 to 2018 to meet the 2.5% requirement by the end of 2018.

(7) Calculated by dividing total loans to customers by total customer deposits. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio no higher than 75%. On August 29, 2015, the Standing Committee of the NPC promulgated the Decision of the Standing Committee of the National People's Congress on Amending the 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》), pursuant to which, effective from October 1, 2015, the maximum loan-to-deposit ratio of 75% required under the PRC Commercial Banking Law was revoked.

Our NPL ratio increased from December 31, 2013 to March 31, 2016, primarily reflecting the adverse impact of the slowdown in growth of China's economy on the repayment ability of certain small and micro enterprises and retail customers, and such changes were in line with the trend of the PRC banking industry. For more details, see "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio" on pages 427 to 444 of this prospectus.

OFFERING STATISTICS

The Global Offering comprises:

(i) the Hong Kong Public Offering of 605,330,000 H 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 11,501,258,000 H Shares (subject to adjustment and the Over-allotment Option) to be offered to (i) in the United States to qualified institutional buyers in reliance on Rule 144A or another exemption from, or in transaction not subject to, the registration requirements of the U.S. Securities Act, and (ii) outside the United States in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Representatives, as representatives of the International Underwriters, have an option to require our Bank to issue and allot up to an aggregate of 1,815,988,000 additional H Shares, representing approximately 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to cover, among other things, over-allocation, if any, in the International Offering.

The statistics in the following table are based on the assumptions that: (i) the Global Offering has been completed and 12,106,588,000 H Shares have been issued in the Global Offering, (ii) the Over-allotment Option has not been exercised, and (iii) 80,710,588,000 Shares are issued and outstanding after the completion of the Global Offering.

	Based on minimum indicative Offer Price of HK$4.68	Based on maximum indicative Offer Price of HK$5.18
Market capitalization of our Shares	HK$377,726 million	HK$418,081 million
Unaudited pro forma adjusted net tangible assets per Share(1)	HK$4.60	HK$4.69

(1) The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity holders of our Bank is calculated with the adjustments referred to in "Appendix III — Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Statement of Adjusted Net Tangible Assets."

FUTURE PLANS AND USE OF PROCEEDS

We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business. For details of our proposed use of proceeds from the Global Offering, see "Future Plans and Use of Proceeds" on page 538 of this prospectus.

REGULATION ON INTERBANK BUSINESS

On April 24, 2014, the PBOC, CBRC, CSRC, CIRC and SAFE jointly issued the Circular on Regulating Interbank Businesses of Financial Institutions* (關於規範金融機構同業業務的通知) ("Circular 127"), which sets out certain requirements in connection with regulating interbank businesses of financial institutions. Among others, Circular 127 (i) defines and regulates interbank investment and financing businesses, including interbank lending, interbank deposits, interbank borrowing, interbank financing agency services, financial assets held under resale agreements and financial assets sold under repurchase agreements, requiring financial institutions to manage their interbank businesses based on the type of business; (ii) requires financial institutions engaging in transactions of financial assets held under resale agreements and financial assets sold under repurchase agreements and interbank investments not to 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; and (iii) requires financial institutions engaging in interbank businesses to establish a sound risk management system and internal control system and adopt correct accounting rules. For details of Circular 127, see "Supervision and Regulation — Regulation on Major Business of Commercial Banks — Interbank Business" on pages 141 to 142 of this prospectus.

We adjusted our product and business structure according to the requirements under Circular 127 and all of our interbank businesses are in compliance with the relevant rules under Circular 127. Since

Circular 127 came into force, we no longer accept or provide any credit guarantees that are in violation of Circular 127 from or to third-party financial institutions in our interbank investment business. During the Track Record Period, all the investment principal and returns on our interbank investments were paid to us when due without any default. For details about our interbank businesses, see "Business — Treasury Business — Financial Market Business" on pages 236 to 247 of this prospectus.

DIVIDEND POLICY

In 2013, 2014, 2015 and for the three months ended March 31, 2016, we distributed total cash dividends of RMB2.0 billion, nil, nil and RMB5.0 billion, respectively.

In March 2016, we determined that cash dividends of RMB9.0 billion were payable to China Post Group out of the distributable profit for the period from January 1, 2015 to December 17, 2015, the closing date of the capital injection by the Strategic Investors. As of the Latest Practicable Date, we had fully paid such cash dividends of RMB9.0 billion to China Post Group. Dividends paid in the past may not be indicative of future dividend payments. We cannot guarantee whether and when we will pay dividends in the future.

As approved by our Shareholders' general meeting, our existing and new Shareholders will be entitled to our accumulated undistributed profits prior to the Global Offering.

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of 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. 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.

When we formulate dividend policies, we attach importance to providing reasonable returns for our investors and keeping continuous and stable dividend policies, and meanwhile we consider our long-term benefit, overall benefits of our Shareholders and our own long-term sustainable development. We distribute dividends primarily in the form of cash. We may make interim dividend distribution when certain criteria are met. Under PRC laws and our Articles of Association, we may only pay dividends out of our distributable profit. Except for special circumstances, we shall distribute not less than 10% of the net profit attributable to our Shareholders as cash dividends to Shareholders of our ordinary shares in any fiscal year. The special circumstances under which we may decide not to distribute cash dividend include that (i) we are subject to restrictions on dividend distribution under applicable laws, regulations and regulatory requirements, or (ii) distribution of cash dividend could affect the long-term benefit of our Shareholders. Our Board of Directors can propose to distribute share dividends and submit for Shareholders meeting's approval when we maintain regular operations and our Board of Directors considers our stock prices do not match the size of our share capital and issuing additional shares as dividends is in line with overall benefit of our Shareholders.

For details of our dividend policy, see "Financial Information — Dividend Policy" on pages 533 to 534 of this prospectus.

RISK FACTORS

There are risks associated with any investment. A number of risks and uncertainties are associated with investment in our Shares, including but are not limited to the following:

- If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operations may be materially and adversely affected;
- We are exposed to risks arising from our loans to SMEs;
- We are exposed to risks relating to personal loans;
- If the growth of our customer deposits significantly slows down, or if our customer deposits decrease, our business and liquidity could be materially and adversely affected;
- If there are significant changes to the scale of our outlets, our competitiveness and results of operations could be adversely affected;
- We are exposed to risks relating to our investments in special purpose vehicles;
- We may be unable to meet capital adequacy requirements in the future;
- Our current risk management and internal control system may not be sufficient to protect us against credit, market, liquidity, operational and other risks;
- We may be unable to effectively detect and prevent our employees, staff of our agency outlets, our customers or any other third parties from engaging in illegal activities or other misconduct;
- We face intensifying competition from other banks and financial institutions in the PRC banking industry, as well as competition from alternative investment and financing channels; and
- We are subject to risk relating to changes in interest rates and other market risks, and our ability to hedge market risks is limited.

For details of risks associated with the investment in our Shares, see "Risk Factors" on pages 38 to 71 of this prospectus. You should read all the information in that section carefully before you decide to invest in our Shares.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since March 31, 2016, China's economy has maintained overall stable development. According to the NBS, China's GDP increased by 6.7% in the second quarter of 2016 compared to the same period of 2015, same as the growth rate in the first quarter of 2016, but such growth rate was the lowest quarterly growth since 2011. The slowdown in economic growth of China and specific industries may affect, to certain extent, results of operations and financial condition of the PRC commercial banks. For details of relevant risks, see "Risk Factors — Risks Relating to the PRC — The PRC economic, political and social conditions and government policies may affect our business, financial condition, results of operations and prospects" on pages 63 to 64 of this prospectus.

Since the PBOC reformed the quotation mechanism for determining the mid-point price of Renminbi to the U.S. dollar on August 11, 2015, Renminbi has gradually depreciated against the U.S. dollar with fluctuations in exchange rates. On June 30, 2016, Renminbi depreciated against the U.S. dollar by approximately 3.0% compared to the exchange rate on March 31, 2016. As of the same date, 0.6% of our assets and 0.2% of our liabilities were denominated in foreign currencies. We believe that such changes in the exchange rate and depreciation of Renminbi against the U.S. dollar would not have a material impact on our results of operations and financial condition. For details of our risk management and control measures on exchange rate risk, see "Risk Management — Market Risk Management — Market Risk Management of Banking Book — Exchange Rate Risk Management" on page 318 of this prospectus.

In recent years, certain PRC commercial banks were involved in risk incidents with significant amounts in relation to their discounted bills business. On April 26, 2016, the PBOC and CBRC jointly issued the Circular on Strengthening Regulations on Bills Business and Promoting the Healthy Development of the Bills Market* (《關於加強票據業務監管促進票據市場健康發展的通知》) ("Circular 126"). Circular 126 requires commercial banks to (i) enhance internal control and management of bills business, (ii) consistently conduct the background check of underlying transactions, (iii) supervise the operational process for bills business, and (iv) conduct inspections on risks related to bills business. Branches of the PBOC and CBRC also strengthened on-site and off-site inspections on bills business of commercial banks. We completed self-inspection in May and June 2016 and reported our results to the PBOC and CBRC in July 2016. We are not aware of any material issue or risk incident during our self-inspection and we believe the issues identified during our self-inspection would not materially affect our business, results of operations and financial condition.

Based on our unaudited management accounts, our net interest income decreased by 6.9% to RMB81.6 billion for the six months ended June 30, 2016 from RMB87.7 billion for the same period of 2015, primarily reflecting that (i) the PBOC consecutively reduced the benchmark interest rates in 2015 and we offered higher deposit interest rates than benchmark rates in response to the market competition, and (ii) under the new value-added tax regime effective May 1, 2016, value-added tax payables are deducted from our net interest income whereas, under the business tax regime in effect in 2015, business taxes were not deducted from our net interest income. Our net interest spread decreased to 2.34% for the six months ended June 30, 2016 from 2.74% for the same period of 2015, primarily due to (i) the consecutive reductions in the benchmark interest rates by the PBOC and the higher deposit interest rates than benchmark rates we offered in response to the market competition, and (ii) the above-mentioned effect of the transition from the business tax regime to the value-added tax regime. Our net interest margin decreased to 2.30% for the six months ended June 30, 2016 from 2.81% for the same period of 2015, primarily because our net interest income decreased whereas the average balance of our interest-earning assets continued to grow. As of June 30, 2016, our total assets amounted to RMB7,974.5 billion, representing an increase of 9.3% from RMB7,296.4 billion as of December 31, 2015, primarily reflecting that (i) our loan portfolio continued to grow in line with our overall business growth, (ii) our investment portfolio continued to grow primarily attributable to our increased investments in commercial bank wealth management products with a short term, bonds and money market funds and (iii) our deposits with central bank and amounts due from banks and other financial institutions increased in line with our increased deposits from customers. Our non-performing loan ratio decreased from 0.80% as of December 31, 2015 to 0.78% as of June 30, 2016, primarily due to our strengthened risk management for loans and increased collection and disposal of non-performing loans. The unaudited financial information as of and for the six months ended June 30, 2016 was extracted from our unaudited interim financial information as of and for the six months ended June 30, 2016 which has been reviewed by our reporting accountant in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

In June and September 2016, the CBRC and the PBOC, respectively, approved that we may issue tier-2 capital bonds in an aggregate principal amount of up to RMB50.0 billion. The proceeds to be raised from this issuance of bonds will be used to replenish our capital base. As of the date of this prospectus, we have not issued such bonds. Other than the foregoing tier-2 capital bonds to be issued, we currently do not have any other financing plans.

Except as disclosed above, our Directors have confirmed that, since March 31, 2016 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position.

LISTING EXPENSES

We will incur listing expenses in connection with the Listing, which include professional fees, underwriting commissions and other fees. Assuming an Offer Price of HK$4.93 per H Share, being the mid-point of the range of the Offer Price as stated in this prospectus, the listing expenses to be borne by us are estimated to be RMB888.73 million. Listing expenses of approximately RMB26.21 million had been incurred as of March 31, 2016. Listing expenses of approximately RMB862.52 million are expected to be incurred after March 31, 2016, of which RMB23.48 million is expected to be charged to our consolidated statements of comprehensive income and RMB839.04 million is expected to be accounted for as a deduction from equity.

The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2016.

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

"agency banking businesses framework agreement"	the agency banking businesses framework agreement entered into between China Post Group and us on August 8, 2012 in relation to the entrustment by us to conduct part of our commercial banking businesses through agency outlets, or the agency banking businesses framework agreement we and China Post Group entered into on September 7, 2016 to replace the agency banking businesses framework agreement dated August 8, 2012, as the case may be
"agency outlets"	agency business institutions that have obtained financial licenses from the banking regulatory authorities and provide commercial banking services entrusted by us
"Ant Financial"	Ant Financial (formerly known as Zhejiang Alibaba E-Commerce Co., Ltd.* (浙江阿里巴巴電子商務有限公司)), a company established in the PRC on October 19, 2000, provides payment services through its subsidiary Alipay.com Co., Ltd.* (支付寶（中國）網絡技術有限公司) since 2004, and one of our Shareholders
"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) or, where the context so requires, any of them
"Articles of Association" or "Articles"	our articles of association adopted by our Shareholders at the 2015 annual general meeting held on May 31, 2016 and approved by the CBRC on June 24, 2016, which will become effective upon the Listing, as amended, supplemented or otherwise modified from time to time
"ATM(s)"	automated teller machine(s)
"Bank," "Company," "we," "us," or "PSBC"	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, and, where the context so requires, includes its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets' operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiary
"Banking Ordinance"	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Basel Accords"	Basel I, Basel II and Basel III, collectively
"Basel Committee"	the Basel Committee on Banking Supervision

"Basel I"	the Basel Capital Accord promulgated in 1988
"Basel II"	the Basel Capital Accord promulgated in June 2004
"Basel III"	the Basel Capital Accord promulgated in December 2010
"Big Four"	Agricultural Bank of China, Bank of China, China Construction Bank, and Industrial and Commercial Bank of China and, where the context so requires, their respective predecessors
"Board" or "Board of Directors"	our board of Directors
"CAGR"	compound annual growth rate
"Capital Adequacy Measures"	the Measures on the Administration of Capital Adequacy Ratios of Commercial Banks* (商業銀行資本充足率管理辦法) promulgated by the CBRC on February 23, 2004, effective on March 1, 2004 and amended on July 3, 2007, which was later replaced by the Capital Administrative Measures (Provisional) on January 1, 2013
"Capital Administrative Measures (Provisional)"	the Administrative Measures for the Capital of 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, as amended, supplemented or otherwise modified from time to time; also referred to as New Capital Accord in this prospectus
"CBRC"	China Banking Regulatory Commission
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus only and, unless the context otherwise requires, excluding Hong Kong, Macau and Taiwan

"China Life"	China Life Insurance Company Limited, a company established in the PRC on June 30, 2003, and one of our Shareholders
"China Post Group"	China Post Group Corporation* (中國郵政集團公司), an enterprise owned by the whole people established in the PRC on October 4, 1995, and our controlling shareholder
"China Telecom"	China Telecommunications Corporation, an enterprise owned by the whole people established in the PRC on April 27, 1995, and one of our Shareholders
"CIRC"	China Insurance Regulatory Commission
"city commercial banks"	banks with branches at municipal or higher levels established with the approval of the CBRC and other regulatory authorities from predecessor urban credit cooperatives pursuant to the PRC Company Law and the PRC Commercial Banking Law
"Classification Standards of Small and Medium Enterprises"	the Classification Standards of Small and Medium Enterprises* (中小企業劃型標準規定) jointly promulgated by the 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
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Core Indicators (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

"County Area" or "County Areas"	areas designated as counties or county-level cities under China's administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include more economically developed county centers, towns and the vast rural areas within their administrative jurisdictions. As of December 31, 2014, County Areas accounted for 93.8% of the total area and 74.6% of the total population of China. In 2014, County Areas accounted for 57.2% of the total GDP of China
"County Area Banking Business" or "Sannong Finance Services"	a broad range of financial products and services commercial banks provide to customers in County Areas through business outlets located in County Areas
"CPPIB"	Canada Pension Plan Investment Board, a company established in Canada on December 18, 1997 in accordance with the Canada Pension Plan Investment Board Act, and one of our Shareholders
"CSRC"	China Securities Regulatory Commission
"DBS Bank"	DBS Bank Ltd., a company established in Singapore on July 16, 1968, and one of our Shareholders
"directly-operated outlets"	outlets owned and directly operated by us
"Director(s)"	our director(s)
"Domestic Shares"	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
"Euro" or "EUR"	the lawful currency of the eurozone
"foreign banking institutions"	representative offices and branches of foreign-owned and joint-venture banks and locally-established subsidiaries of foreign banks
"Foreign Shares"	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in a currency other than Renminbi
"FMPL"	Fullerton Management Pte Ltd, a company established in Singapore on November 8, 1994, being a wholly-owned subsidiary of Temasek, and one of our Shareholders
"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
"GIZ"	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, a Germany-based company established in 1975, and merged with other companies as Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in 2010
"Group"	our Bank and our subsidiary
"Guidelines on the Corporate Governance"	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 as of the same date
"H Shares"	overseas-listed Shares in our share capital, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for listing and permission to trade on the Hong Kong Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"HK$" or "HKD" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"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"	Hong Kong Special Administrative Region of the PRC
"Hong Kong listed PRC commercial banks"	the PRC commercial banks listed on the Hong Kong Stock Exchange as of the Latest Practicable Date, including the Big Four, Bank of Communications, China Merchants Bank, China CITIC Bank, China Minsheng Bank, Chongqing Rural Commercial Bank, Huishang Bank, Bank of Chongqing, China Everbright Bank, Harbin Bank, Shengjing Bank, Bank of Jinzhou, Bank of Qingdao, Bank of Zhengzhou, Zheshang Bank and Bank of Tianjin; this prospectus contains data and statistics relating to these banks to the extent available in the publicly available sources as of the date of this prospectus

"Hong Kong Offer Shares"	H Shares offered pursuant to the Hong Kong Public Offering, subject to adjustment as described in "Structure of the Global Offering"
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares (subject to adjustment) by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in "Structure of the Global Offering — The Hong Kong Public Offering"
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering set out in "Underwriting — Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the Hong Kong underwriting agreement dated September 13, 2016 which was entered into among, the Bank, the Joint Representatives and the Hong Kong Underwriters relating to the Hong Kong Public Offering
"Huijin"	Central Huijin Investment Ltd.
"IFC"	International Finance Corporation, an international organization established by the Articles of Agreement among its member countries including the PRC, and one of our Shareholders
"IFRS"	International Financial Reporting Standards, the related amendments and interpretations issued by the International Accounting Standards Board
"Independent Third Party(ies)"	a person or entity, as far as the Directors are aware after having made all reasonable enquiries, is not a connected person of our Bank within the meaning of the Listing Rules
"International Offer Shares"	H Shares offered pursuant to the International Offering together, where relevant, with any H Shares that may be issued or offered pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in "Structure of the Global Offering"
"International Offering"	the conditional placement by the International Underwriters of the International Offer Shares, as further described in "Structure of the Global Offering"

"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering, which is expected to be entered into among the Bank, the Joint Representatives and the International Underwriters, as further described in "Structure of the Global Offering — the Global Offering"
"International Underwriters"	the group of underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
"Joint Global Coordinators"	China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch, Merrill Lynch International, J.P. Morgan Securities (Asia Pacific) Limited, Morgan Stanley Asia Limited, Goldman Sachs (Asia) L.L.C., DBS Asia Capital Limited, China Merchants Securities (HK) Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited and Citigroup Global Markets Asia Limited
"Joint Bookrunners"	China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch, Merrill Lynch International, J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering only), J.P. Morgan Securities plc (in relation to the International Offering only), Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), Goldman Sachs (Asia) L.L.C., DBS Asia Capital Limited, China Merchants Securities (HK) Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited, Citigroup Global Markets Asia Limited (in relation to the Hong Kong Offering only), Citigroup Global Markets Limited (in relation to the International Offering only), BOCOM International Securities Limited, CCB International Capital Limited, ICBC International Capital Limited, BOCI Asia Limited, Haitong International Securities Company Limited, ABCI Capital Limited, CMB International Capital Limited, First Capital Securities Limited, Sun Hung Kai Investment Services Limited, Essence International Securities (Hong Kong) Limited, China Galaxy International Securities (Hong Kong) Co., Ltd, China Securities (International) Corporate Finance Company Limited, Nomura International (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, CLSA Limited and Huarong International Capital Limited

"Joint Lead Managers"	China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch, Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering only), Merrill Lynch International (in relation to the International Offering only), J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering only), J.P. Morgan Securities plc (in relation to the International Offering only), Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), Goldman Sachs (Asia) L.L.C., DBS Asia Capital Limited, China Merchants Securities (HK) Co., Ltd., The Hongkong and Shanghai Banking Corporation Limited, Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (in relation to the International Offering only), BOCOM International Securities Limited, CCB International Capital Limited, ICBC International Securities Limited, BOCI Asia Limited, Haitong International Securities Company Limited, ABCI Securities Company Limited, CMB International Capital Limited, First Capital Securities Limited, Sun Hung Kai Investment Services Limited, Essence International Securities (Hong Kong) Limited, China Galaxy International Securities (Hong Kong) Co., Ltd, China Securities (International) Corporate Finance Company Limited, Nomura International (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, CLSA Limited and Huarong International Securities Limited
"Joint Representatives"	China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch, Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering only), Merrill Lynch International (in relation to the International Offering only), J.P. Morgan Securities (Asia Pacific) Limited, Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only) and Goldman Sachs (Asia) L.L.C.
"Joint Sponsors"	China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited, Merrill Lynch Far East Limited, Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities (Far East) Limited

"JPMorgan"	JPMorgan Chase & Co., a company established in the State of Delaware, the United States on October 28, 1968
"JPMorgan CICII"	JPMorgan China Investment Company II Limited, a company established in the State of Delaware, the United States, on August 21, 2015, an indirectly wholly-owned subsidiary of JPMorgan, and one of our Shareholders
"Large Commercial Banks"	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and our Bank, collectively
"Latest Practicable Date"	September 5, 2016, being the latest practicable date for the purpose of ascertaining certain data contained in this prospectus prior to its publication
"Listing"	the listing of our H Shares on the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about Wednesday, September 28, 2016, on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Mandatory Provisions"	the Mandatory Provisions for Inclusion in the Articles of Association of Companies Incorporated in the PRC to be Listed Overseas* (到境外上市公司章程必備條款) promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994, effective as of the same date, as amended, supplemented or otherwise modified from time to time
"Measures for the Administration of Agency Business Institutions"	the Notice of the CBRC on Issuing Measures for the Administration of Agency Business Institutions (Amended) for PSBC (Yin Jian Fa [2015] No.49)* (中國銀監會關於印發郵政儲蓄銀行代理營業機構管理辦法(修訂)的通知)(銀監發[2015]49號)

"medium-sized enterprises"	the enterprises classified as medium-sized 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 1,000 employees or revenue of less than RMB400 million shall be classified as SMEs, among which those with 300 or more employees and revenue of RMB20 million or more shall be classified as medium-sized enterprises
"micro-sized enterprises"	the enterprises classified as micro-sized 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-sized enterprises
"MIIT"	Ministry of Industry and Information Technology of the PRC
"Mobile Business Development"	the use of mobile devices integrated with the mobile business development system of our head office that enables our front desk staff to provide services relating to debit card, credit card, electronic banking, loans, and other services, and to engage in customer marketing via wireless communication
"MOF"	Ministry of Finance of the PRC
"NAO"	National Audit Office of the PRC
"nationwide joint-stock commercial banks"	China CITIC Bank, China Everbright Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank (formerly named as Shenzhen Development Bank), China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Hengfeng Bank (formerly named as Evergrowing Bank), Zheshang Bank and Bohai Bank
"NBS"	National Bureau of Statistics of the PRC
"NDRC"	National Development and Reform Commission of the PRC
"net capital"	core tier-1 capital, additional tier-1 capital and tier-2 capital of a bank less corresponding capital deductions, in each case, as specified in the relevant CBRC regulations
"NPC"	National People's Congress of the PRC
"NPL(s)"	non-performing loan(s)
"NSSF"	National Council for Social Security Fund of the PRC

"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the H Shares are to be subscribed for and issued pursuant to the Global Offering. For details, see "Structure of the Global Offering"
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares to be issued or sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	pursuant to the International Underwriting Agreement, the option to be granted by our Bank to the International Underwriters exercisable by the Joint Representatives on behalf of the International Underwriters pursuant to which our Bank may be required to allot and issue up to an aggregate of 1,815,988,000 additional H Shares (representing approximately 15% of the Offer Shares initially available under the Global Offering) at the Offer Price to cover, among other things, over-allocation, if any, in the International Offering
"PBOC"	The People's Bank of China, the central bank of the PRC
"personal operational loans"	loans that a bank extends to borrowers for turnover of working capital, purchase or upgrade of operating equipment, business premise rental payment, commercial housing decoration and other permissible production and business activities, according to the CBRC
"POS"	point of sale, a checkout terminal in a shop or any location where a transaction occurs
"Postal Affiliates"	China Post Group and its branches and sub-branches at different levels providing general postal services
"PRC Banking Supervision and Regulation Law"	the Banking Supervision and Regulation Law of the PRC* (中華人民共和國銀行業監督管理法), which was promulgated by the 6th session of the Standing Committee of the 10th National People's Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time
"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 amended 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 Accounting Standards and Accounting Regulations for Business Enterprises* (企業會計準則) promulgated by the 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* (中華人民共和國中國人民銀行法), 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
"PRC Postal Law"	the Postal Law of the PRC* (中華人民共和國郵政法), which was amended by the 8th session of the Standing Committee of the 11th National People's Congress on April 24, 2009 and became effective on October 1, 2009, as amended, supplemented or otherwise modified from time to time
"Price Determination Date"	the date, expected to be on or around Wednesday, September 21, 2016 but in any case no later than Thursday, September 22, 2016 on which the Offer Price is fixed for the purposes of the Global Offering
"PSBC Consumer Finance"	PSBC Consumer Finance Company Limited* (中郵消費金融有限公司), a company incorporated on November 19, 2015, in which we own a 61.5% equity interest
"QIBs"	qualified institutional buyers as defined in Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"related party" or "related parties"	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders* (商業銀行與內部人和股東關聯交易管理辦法) promulgated by 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 promulgated by the CBRC, the PRC GAAP and/or IFRS
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC

"Rule 144A"	Rule 144A under the U.S. Securities Act
"rural banking financial institutions"	the rural financial institutions (including rural credit cooperatives, rural commercial banks and rural cooperative banks) and emerging rural financial institutions (including village and township banks, loan companies and rural mutual cooperatives)
"SAFE"	State Administration of Foreign Exchange of the PRC
"SAIC"	State Administration for Industry and Commerce of the PRC
"Sannong"	a short-hand reference to the Chinese pronunciation of the phrase "agriculture, rural areas and farmers"* (農業、農村和農民). The terminology "Sannong"* (三農) was initially created to refer to the three rural development issues in China (specifically, agriculture, rural areas and farmers) and has become an expression widely adopted by the policymakers in China
"Sannong Loans"	consist of (i) personal loans to farmers households, (ii) personal loans to individuals who engage in agriculture, forestry, animal husbandry and fishery, (iii) loans to rural enterprises and organizations, and (iv) loans to urban enterprises and organizations with use related to agriculture, according to the data statistics of the PBOC and CBRC
"SAT"	State Administration of Taxation of the PRC
"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"	our ordinary shares in the share capital with a nominal value of RMB1.00 each
"Shareholder(s)"	the holder(s) of the Shares
"Shenzhen Tencent"	Shenzhen Tencent Domain Computer Network Company Limited* (深圳市騰訊網域計算機網絡有限公司) , a company incorporated in the PRC on April 28, 1997, and one of our Shareholders
"SHIBOR"	Shanghai Interbank Offered Rate
"Singles Day"	an annual promotional campaign run by numerous Chinese e-commerce websites on November 11 since 2009

"small and micro enterprise banking services"	financial services we provide to medium-sized, small-sized and micro-sized enterprises classified as such under the Classification Standards of Small and Medium Enterprises, individual business owners, and owners of small and micro enterprises
"small-sized enterprises"	the enterprises classified as small-sized 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 300 employees or revenue of less than RMB20 million shall be classified as small-sized or micro-sized enterprises, among which those with 20 or more employees and revenue of RMB3 million or more shall be classified as small-sized enterprises
"SMEs"	the enterprises classified as micro-sized, small-sized and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
"Sole Financial Advisor"	UBS AG Hong Kong Branch
"Special Regulations"	the Special Regulations on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies* (關於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
"Stabilizing Manager"	Goldman Sachs (Asia) L.L.C.
"State Council"	the PRC State Council
"Strategic Cooperation Agreements"	the strategic cooperation agreements entered into among the Bank and Strategic Investors and/or their respective affiliate(s)
"Strategic Investors"	UBS, China Life, China Telecom, CPPIB, Ant Financial, JPMorgan, FMPL, IFC, DBS Bank, and Shenzhen Tencent
"Strategic Investor Shareholders"	UBS, China Life, China Telecom, CPPIB, Ant Financial, JPMorgan CICII, FMPL, IFC, DBS Bank, and Shenzhen Tencent
"subsidiary" or "subsidiaries"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)" or "Board of Supervisors"	our supervisor(s) or our board of Supervisors, respectively
"Supreme People's Court"	The Supreme People's Court of the PRC

"Temasek"	Temasek Holdings (Private) Limited, a company established in Singapore on June 25, 1974
"Track Record Period"	the period comprising the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016
"UBS"	UBS AG, a company established in Switzerland on June 29, 1998, merged from Union Bank of Switzerland and Swiss Bank Corporation, a wholly-owned subsidiary of UBS Group AG, and one of our Shareholders
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States," "US" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"Urban Area" or "Urban Areas"	the rest of China other than County Areas
"US$," "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Weibank"	one of our electronic banking service systems, providing banking services on Internet social platforms including WeChat, Easy Chat and Weibo
"White Form eIPO"	the application for Hong Kong Offer Shares to be lodged in the applicant's own name by submitting applications online through the designated website of White Form eIPO service at www.eipo.com.hk
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited

In this prospectus, unless otherwise indicated:

- "directly-operated outlets" and "agency outlets" are collectively referred to as "outlets";
- "medium-sized enterprises," "small-sized enterprises," "micro-sized enterprises" and "SME(s)" refer to the enterprises classified as such under the Classification Standards of Small and Medium Enterprises; "large-sized enterprises" refer to the enterprises other than those classified as SMEs; and "small and micro enterprises" refer to small-sized enterprises and micro-sized enterprises, collectively;

- "our corporate loans to small enterprises" refer to corporate loans we extend to enterprises classified as medium-sized, small-sized and micro-sized enterprises under the Classification Standards of Small and Medium Enterprises with a maximum credit line of RMB30 million for a single customer;

- "our small enterprise customers" refer to our customers that are classified as medium-sized, small-sized and micro-sized enterprises under the Classification Standards of Small and Medium Enterprises with a maximum credit line of RMB30 million for a single customer;

- "our small and micro enterprise loans" refer to, collectively, our corporate loans to small enterprises, micro loans, and personal business loans;

- "weighted average contractual interest rate" refers to, as of a given date, the weighted average of the agreed-upon interest rates provided in the loan agreements of a particular type of loans (with the principal amount of each loan under the loan agreement as the applicable weighting);

- a "business day" refers to a day that is not Saturday, Sunday or a public holiday in Hong Kong; and

- "associate," "close associate," "connected person," "core connected person," "connected transaction," "substantial shareholder," and "controlling shareholder" shall have the meanings given to them in the Listing Rules, unless the context otherwise requires.

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

In this prospectus, "non-performing loans," "NPLs" and "impaired loans" all refer to the loans recognized as "impaired loans and advances" in Note 44 to our financial information set out in "Appendix I — Accountant's Report" to this prospectus. Under the five-category loan classification system we adopted pursuant to applicable CBRC guidelines, our non-performing loans are classified as substandard, doubtful or loss (as the case may be). For details, see "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Loan Classification Criteria."

In this prospectus, we define the geographical regions of China to which we refer for the purpose of describing our distribution network and presenting certain results of operations and financial condition as follows:

Geographical regions	Branches	
"Yangtze River Delta"	• Shanghai Municipality • Zhejiang Province	• Jiangsu Province • City of Ningbo
"Pearl River Delta"	• Guangdong Province • City of Shenzhen	• Fujian Province • City of Xiamen
"Bohai Rim"	• Beijing Municipality • Tianjin Municipality • Hebei Province	• Shandong Province • City of Qingdao
"Central China"	• Shanxi Province • Hubei Province • Henan Province • Hunan Province	• Jiangxi Province • Hainan Province • Anhui Province
"Northeastern China"	• Liaoning Province • Heilongjiang Province	• Jilin Province • City of Dalian
"Western China"	• Chongqing Municipality • Sichuan Province • Guizhou Province • Yunnan Province • Shaanxi Province • Gansu Province • Qinghai Province • Ningxia Autonomous Region	• Xinjiang Autonomous Region • Tibet Autonomous Region • Inner Mongolia Autonomous Region • Guangxi Autonomous Region

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.

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. English translation of company names and other terms from the Chinese Language marked with "*" are for identification purposes only.

This prospectus includes certain forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- general political and economic conditions, including those related to the PRC;
- changes in the global economic conditions and volatility in the global financial markets;
- macroeconomic measures taken by the PRC government to manage economic growth;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- the actions and developments of our competitors;
- our business prospects;
- various business opportunities that we may pursue;
- our expansion plans;
- our ability to successfully implement our business plans and strategies;
- our capital expenditure plans;
- our financial condition and performance; and
- our dividend policy.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part 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 differs from those prevailing in other jurisdictions. For information concerning the legal and regulatory systems of the PRC and certain related matters set forth 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 LOAN PORTFOLIO

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

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our total loans to customers were RMB1,492.6 billion, RMB1,875.7 billion, RMB2,471.9 billion and RMB2,665.8 billion, respectively, and our NPL ratio was 0.51%, 0.64%, 0.80% and 0.81%, respectively. Our financial condition and results of operations are affected by our ability to effectively improve or maintain the quality of our loan portfolio. We cannot assure you that the quality of our loan portfolio will not deteriorate. The quality of our loan portfolio may be affected by a variety of factors, many of which are beyond our control. These factors include the slowdown and structure reform of the PRC economy, the PRC government's monetary policies, adverse developments in the PRC economy or other major economies, and natural disasters. These factors may adversely affect the business, liquidity or repayment capabilities of our borrowers. The quality of our loan portfolio also depends on our ability to effectively manage credit risk. The quality of our loan portfolio may deteriorate if we are not able to effectively implement the policies, procedures and systems for managing credit risk. If we are unable to effectively maintain the quality of our loan portfolio due to the above reasons, our NPL ratio and allowance for impairment losses on loans may increase, which may materially and adversely affect our business, financial condition and results of operations.

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

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our allowance for impairment losses on loans was RMB29.3 billion, RMB43.7 billion, RMB59.3 billion and RMB61.6 billion, respectively, and our allowance coverage ratio was 382.94%, 364.10%, 298.15% and 286.71%, respectively. As of the same dates, our allowance to gross loan ratio was 1.97%, 2.33%, 2.40% and 2.31%, respectively. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, we made net provisions for impairment losses on loans to customers of RMB8,066 million, RMB17,921 million, RMB23,186 million and RMB4,302 million, respectively. We determine the amount of allowance for impairment losses on loans based on our assessment of various factors affecting the quality of our loan portfolio under IAS 39. These factors include the borrowers' operational and financial conditions, ability and willingness of repayment, the realizable value of the collateral, the ability of the guarantors to fulfill their obligations, macroeconomic and industrial policies, interest rates, exchange rates, and general legal and regulatory environment. Many of these factors are beyond our control, and our assessment and expectation of these factors may differ from their future developments.

The adequacy of our allowance for impairment losses on loans depends on the reliability and effectiveness of our systems for evaluating the potential losses and our ability to collect, process and analyze the statistics. If we are not able to fully apply these systems, or our ability to collect, process and analyze the statistics is impaired, or our assessments and expectations of the factors affecting the quality of our loan portfolio differ from their actual developments, our allowance for impairment losses may be inadequate to cover the actual losses. We may therefore have to make additional allowance for impairment losses, which may materially and adversely affect our business, financial condition, results of operations and prospects.

Our loans are concentrated in certain industries, regions and borrowers. If the economies of these industries or regions or the financial condition of these borrowers deteriorate, our asset quality, financial condition and results of operations may be materially and adversely affected.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate loans were RMB708.8 billion, RMB804.3 billion, RMB981.0 billion and RMB1,028.4 billion, respectively, representing 47.5%, 42.9%, 39.7% and 38.6%, respectively, of our total loans to customers. As of March 31, 2016, the top five industries to which we extended corporate loans were (i) transportation, storage and postal services, (ii) manufacturing, (iii) production and supply of electricity, gas and water, (iv) financial services, and (v) wholesale and retail, representing 35.1%, 15.8%, 13.2%, 10.6% and 5.8%, respectively, of our total corporate loans. Our non-performing corporate loans consist primarily of NPLs to corporate borrowers in the manufacturing industry and the wholesale and retail industry. As of March 31, 2016, our NPLs to corporate borrowers in the manufacturing industry and the wholesale and retail industry represented 45.2% and 36.0% of our total non-performing corporate loans, respectively. A deterioration in the financial condition and results of operations of our borrowers in these industries may result in an increase in our overall NPL ratio.

We also extend loans to agriculture-related industries and customers. As of March 31, 2016, our Sannong Loans were RMB783.2 billion, representing 29.4% of our total loans. Agriculture-related industries and customers are generally less resilient to adverse consequences of natural disasters and price fluctuations in agricultural products. The risk management measures we take may not be adequate to eliminate or mitigate these risks. If the quality of our loans to agriculture-related industries and customers deteriorates, our asset quality, financial condition and results of operations may be materially and adversely affected.

As of March 31, 2016, our loans to customers originated in Central, Western and Northeastern China represented 46.8% of our total loans to customers. Although the economic development of these regions may currently benefit from favorable governmental policies, any of these economic policies may change in the future and the implementation of such policies may not be as effective as we anticipate, nor can we control or influence the change of such policies in these regions. If the economies of these regions materially deteriorate, or face any regional or systemic risk, or if our assessments of the credit risk of the borrowers that are located, or have substantial operations, in such regions are inaccurate, our asset quality, financial condition and results of operations may be materially and adversely affected.

As of March 31, 2016, the total balance of our loans to the ten largest single borrowers was RMB312.4 billion, representing 11.7% of our total loans to customers, among which our loans to China Railway Corporation, our single largest borrower, was RMB243.1 billion, representing 9.1% of our total loans to customers. As of the same date, the above loans were all classified as normal. In addition, as of March 31, 2016, the total amount of credit we granted to the ten largest group borrowers was RMB408.1 billion, among which the credit we granted to China Railway Corporation, our single largest group borrower, was RMB248.2 billion. As of the same date, none of the loans to these group borrowers was classified as non-performing. If the quality of the loans to any of these above borrowers deteriorates, our asset quality, financial condition and results of operations may be materially and adversely affected.

The collateral or guarantee securing our loans to customers may not be adequate.

As of March 31, 2016, 52.9% of our total loans to customers were secured by mortgage or pledge. The collateral we accept to secure our loans primarily includes, among others, real properties, land use rights, forest property rights, time deposits, machinery and equipment, transportation vehicles, precious metal, equity securities, debt securities, accounts receivables, and toll collection rights. The value of these collateral may fluctuate and decline due to various factors beyond our control. For example, any recession or prolonged downturn in the PRC real estate market may result in declines in the value of properties or land use rights securing our loans to a level below the outstanding principal of and interest on such loans. In addition, we cannot assure you that our assessment of the value of the collateral securing our loans will be accurate at all times. If our collateral proves to be inadequate to cover the loans it secures, we may have to obtain additional collateral from the borrowers, and there is no assurance that we would be able to do so. Declines in the value of our collateral or our inability to obtain additional collateral may result in our additional allowance for loan impairment, which may materially and adversely affect our business, financial condition and results of operations.

Furthermore, the procedures for liquidating or otherwise realizing the value of collateral in the form of non-monetary assets in the PRC may be protracted, and it may be difficult to enforce claims in respect of such collateral. Under relevant laws and regulations, certain third-party rights may have priority over our rights to the collateral securing our loans, preventing us from recovering all or part of the principal of and interest on the secured loans.

As of March 31, 2016, 8.3% of our total loans to customers were guaranteed loans. These guaranteed loans were generally not secured by collateral or other forms of security. Any deterioration in the guarantors' financial condition may have a material adverse effect on the quality of such loans. In addition, a portion of these guarantees were provided by affiliates of the borrowers. As a result, the factors that may result in the borrower's inability to fully and timely repay a guaranteed loan may also affect the guarantor's ability to fully perform its obligations and may, therefore, expose us to additional risks. Furthermore, we are subject to the risk that a court or any other judicial or government authorities may declare a guarantee invalid, or otherwise decline or fail to enforce such guarantee. We are therefore exposed to the risk that we may not be able to recover all or part of the loans guaranteed. If we are unable to dispose of the assets of the borrower and the guarantor, or if the guarantor is not able to fully perform its obligations in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

As of March 31, 2016, unsecured loans represented 26.1% of our total loans to customers. We extended unsecured loans primarily based on our assessment of the creditworthiness of the borrower. We cannot assure you that the assessments are or will be accurate at all times, or that the borrowers of our unsecured loans will repay their loans in full and on time. Because we only have general claims on the assets of the defaulting borrowers of the unsecured loans, we are exposed to a relatively high risk of losing the entire outstanding amount of these loans, which may adversely affect our business, financial condition and results of operations.

We are exposed to risks arising from our loans to SMEs.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our total loans to SMEs (the enterprises classified as micro-sized, small-sized and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises) represented 32.5%, 32.6%, 32.3% and 31.3%, respectively, of our total corporate loans. Due to their limited financial, management, technological and other resources, SMEs are generally less resilient to macroeconomic fluctuations or unfavorable regulatory changes and more likely to default on their loans due to liquidity difficulties than larger enterprises. In addition, we may not be able to obtain all the information necessary to assess the credit risk associated with SMEs. The NPL ratio of our loans to SMEs may increase significantly due to the above reasons, which may in turn materially and adversely affect our financial condition, results of operations and prospects.

We are exposed to risks relating to personal loans.

As of March 31, 2016, our personal loans represented 48.7% of our total loans to customers. We offer a wide variety of personal loan products, including consumer loans (including residential mortgage loans and other consumer loans), personal business loans, micro loans and credit card overdrafts and others.

We may not be able to obtain all the information necessary to assess the credit risk relating to our personal loan customers, or verify the information available to us given the less advanced credit reporting system in the PRC. In addition, compared to other types of customers, the ability and willingness of repayment of retail customers are more vulnerable to adverse consequences of economic downturn, inflation, rising unemployment rate, natural disasters as well as other macroeconomic and social factors. We have a large, geographically widespread retail customer base. As a result, our efforts to collect and maintain our non-performing personal loans may not be as effective as we anticipate. We have adopted various risk management measures to control the credit risks relating to our personal loans. See "Risk Management — Credit Risk Management — Credit Risk Management for Personal Loans." We cannot assure you, however, that these measures will be effective and sufficient. If the NPL ratio of our personal loans rises due to any of the above reasons, our financial condition, results of operations and prospects may be materially and adversely affected.

Our asset quality, financial condition and results of operations may be materially and adversely affected if the ability of local government financing vehicles to service debt deteriorates.

Similar to other PRC commercial banks, we extend loans to local government financing vehicles, or LGFVs. According to the CBRC, LGFVs are entities with independent legal capacity that are formed and sponsored by the local governments. The funds raised by LGFVs are primarily used for infrastructure construction and development. As of March 31, 2016, our total loans to LGFVs were RMB106.1 billion, representing 10.3% of our total corporate loans, and the NPL ratio of our loans to LGFVs was nil. We also invest in corporate bonds, trust investment plans and asset management plans, and the proceeds of these products may be used to provide financing to LGFVs.

Pursuant to applicable laws and regulations, unless otherwise provided by law and the State Council, local governments and their departments, organizations, and institutions that are funded primarily by fiscal budget are not permitted to use fiscal income or the state-owned assets of administrative institutions to provide guarantee, or otherwise directly or indirectly provide any form of security, for fund-raising by LGFVs. In addition, the projects run by LGFVs are carried out primarily for public interest purposes and are not necessarily commercially viable. For this reason, the operating cash flows generated from these projects may not be adequate to cover the principal of and interest on our LGFV loans. As a result, the ability of an LGFV borrower to repay its loans may significantly depend on its ability to receive fiscal support from the government, which may not always be available due to the government's liquidity, budgeting priorities, among other things. In recent years, the State Council, PBOC and CBRC, together with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that direct PRC banks and other financial institutions to strengthen their risk management regarding loans to LGFVs. See "Supervision and Regulation — Regulation on Major Business of Commercial Banks — Loans."

We have adopted a series of measures in response to these regulatory directives to control risk relating to LGFVs, including limiting the size of our loans to LGFVs and strengthening our credit extension and monitoring mechanisms. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Loan Portfolio Management — Credit Risk Management for Loans to Local Government Financing Vehicles." However, various factors, including, among others, unfavorable macroeconomic developments, changes in governmental policies, deteriorating financial condition of the local governments, and severe recession in the real estate market may adversely affect LGFVs' repayment capabilities, which may in turn increase our impairment losses on loans to LGFVs, and thus may materially and adversely affect our asset quality, business, financial condition and results of operations. We cannot assure you that the above measures we take are sufficient in protecting us against the default by our LGFV borrowers.

A recession or prolonged period of downturn in the PRC real estate market may have a material adverse effect on our business, financial condition and results of operations.

We extend loans to corporate borrowers in the real estate industry, residential mortgage loans, and other loans secured by real estate. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our loans to corporate borrowers in the real estate industry represented 2.8%, 3.4%, 4.2% and 4.0%, respectively, of our total corporate loans. As of the same dates, our residential mortgage loans represented 40.6%, 41.8%, 47.2% and 49.3%, respectively, of our total personal loans. The PRC government has imposed and may continue to impose macroeconomic controls to regulate the real estate market, including imposing business taxes on the transfer of residential houses within two or five years, as the case may be, after the purchase of the houses, levying mandatory personal income tax for second-hand residential housing 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. Other factors may also reduce the demand for credit from customers in the real estate industry, or adversely affect their financial condition, liquidity and repayment ability, any of which could have an adverse effect on the asset quality of our loans to real estate companies and our residential mortgage loans. In addition, if the PRC real estate market experiences a recession or 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 prevent us from recovering all or part of principal and interest if the borrower defaults. While we have taken various measures to manage these risks, we cannot assure you that these measures will be sufficient in protecting us against the above adverse effects.

If we are unable to successfully maintain the growth of our loan portfolio, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our loan portfolio continued growing during the Track Record Period. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our total loans to customers were RMB1,492.6 billion, RMB1,875.7 billion, RMB2,471.9 billion and RMB2,665.8 billion, respectively. Growth of our loan portfolio is subject to China's macroeconomic condition as well as other factors beyond our control, such as GDP growth, inflation rate, changes in the interest rates, and changes in laws, regulations and rules governing the banking and financial industries. Therefore, we cannot assure you that we will be able to successfully maintain the growth of our loan portfolio. The growth of our loan portfolio may also be limited by applicable requirements on the amount of regulatory capital. Any of the above factors could prevent us from growing our loan portfolio and thereby materially and adversely affect our business, financial condition, results of operations and prospects.

Our loan classification and provisioning policies for impairment losses may differ in some respects from those applicable to commercial banks in certain other countries or regions.

We classify our loans using a five-category loan classification system in accordance with the guidelines set forth by the CBRC. The five categories are normal, special mention, substandard, doubtful and loss. In addition, we recognize impairment losses on loans and determine the amount of allowance for impairment losses on loans using the concept of impairment under IAS 39. For material corporate loans classified as substandard or lower, we make assessment on an individual loan basis. For immaterial non-performing corporate loans, performing corporate loans and all of our personal loans, we make a collective assessment based on our historical loss experience for similar loans and the current economic condition. Our loan classification and provisioning policies for impairment losses may differ in some respects from those applicable to banks in other countries or regions. As a result, disclosure of our loan classification and provisioning policies may be different from those disclosed by the banks incorporated in other countries or regions.

RISKS RELATING TO OUR BUSINESS

If the growth of our customer deposits significantly slows down, or if our customer deposits decrease, our business and liquidity could be materially and adversely affected.

We primarily rely on customer deposits to finance our lending and to meet part of our liquidity needs. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our customer deposits were RMB5,206.5 billion, RMB5,802.9 billion, RMB6,305.0 billion and RMB6,732.4 billion, respectively, representing 95.8%, 94.9%, 89.7% and 90.6%, respectively, of our total liabilities. Various factors beyond our control may affect the growth of our customer deposits, such as China's macroeconomic and political conditions, monetary policies, and customer perceptions toward and preference for bank savings, as well as competition from alternative investment and wealth management products. Changes in one or more of these factors may cause a slowdown in the growth of, or even a decrease in, our customer deposits.

As of March 31, 2016, 54.4% of our total customer deposits were demand deposits or term deposits due in less than three months, while 82.2% of our total loans to customers were due in over three months. This leads to a maturity mismatch between our assets and liabilities. Based on our experience, most short-term deposits are rolled over upon maturity, giving us a relatively stable source of funding. However, there is no assurance that this would continue. Due to the development of alternative investment and wealth management products in the PRC financial markets and the accelerating financial disintermediation in recent years, some customers may withdraw their deposits prior to maturity, or cease to rollover their deposits upon maturity, and invest the funds in alternative products and wealth management products. If our customer deposits grow at a lower rate, or even decline, our ability to meet our capital and liquidity needs will be limited, and we may have to obtain funding from other sources at higher costs. If any of the above occurs, our business, financial condition and results of operations may be materially and adversely affected.

If there are significant changes to the scale of our outlets, our competitiveness and results of operations could be adversely affected.

As of March 31, 2016, we conducted our business through 8,301 directly-operated outlets and 31,756 agency outlets, representing 20.7% and 79.3%, respectively, of the total number of our outlets. We rank first among all PRC commercial banks in terms of the number and geographical coverage of outlets. See "Business — Distribution Channels — Outlet Network." As of December 31, 2013, 2014 and 2015 and March 31, 2016, personal deposits we took through our agency outlets were RMB3,305.9 billion, RMB3,677.2 billion, RMB3,945.5 billion and RMB4,279.5 billion, respectively, representing 60.8%, 60.2%, 56.2% and 57.6%, respectively, of our total deposits. If there are significant changes to the scale of our outlets in the future, our competitiveness, business, financial condition, results of operations and prospects may be adversely affected.

Agency outlets are agency business institutions that have obtained financial licenses from the banking regulatory authorities and provide commercial banking services entrusted by us. We and China Post Group entered into an agency banking businesses framework agreement on August 8, 2012, which was replaced by the new agency banking businesses framework agreement dated September 7, 2016. Pursuant to the agency banking businesses framework agreement dated August 8, 2012 and

September 7, 2016, respectively, we entrusted China Post Group to provide deposits taking, financial settlement, financial agency services and other services at agency outlets and shall pay agency fees to China Post Group. For details of the agency banking businesses framework agreement dated September 7, 2016, currently effective, see "Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements — Agency Banking Businesses." The agency banking businesses framework agreement dated September 7, 2016 has an indefinite term. Under such agency banking businesses framework agreement, we have the right to terminate it, after consultation with China Post Group, if there is any change in relevant government policy that permits the termination of such agency arrangements. There is no assurance that the agency banking businesses framework agreement will not be terminated in the future, or that there will otherwise be no material and unfavorable changes in its principal terms, including, among others, a significant decrease in the number of agency outlets, a significant increase in the agency fees, or the addition of major restrictive covenants. If such agency banking businesses framework agreement is terminated, or if there are any material, unfavorable changes in its principal terms, we may experience significant changes to the scale of our outlets, and our competitiveness, business, financial condition and results of operations may be materially and adversely affected.

We face risks relating to our agency outlets.

China Post Group owns the premises and facilities used by agency outlets, and has the right to appoint or dismiss the managing and operating personnel at agency outlets. The number of the staff of agency outlets as well as their expertise, service quality and marketing capabilities may not fully meet our business development needs, which may have an adverse effect on our ability to take deposit and effectively conduct other businesses through agency outlets. In addition, while we have taken certain measures to manage operational risks associated with agency outlets, we cannot assure you that these measures will always be effective. For example, we may not be able to timely and effectively identify and correct misleading representation or other misconduct committed in the sale of financial products by the staff of agency outlets. If such misconduct occurs, the customers involved may file complaints with the regulatory authorities or bring lawsuits against us. For risk management measures we have taken for agency outlets, see "Risk Management — Risk Management Organizational Structure — Risk Management Structure at Our Agency Outlets." If our agency outlets experience any misconduct or non-compliance incidents, we may be subject to regulatory and legal liabilities, which could in turn have a material adverse effect on our reputation, business, financial condition and results of operations.

We are exposed to credit risk, liquidity risk and market risk relating to our investments.

We engage in a wide range of investments, including investing in debt securities, commercial bank wealth management products, trust investment plans, asset management plans, and securities investment funds. Our investment returns are affected by interest rates, exchange rates, creditworthiness, market liquidity, asset values, and regional economic conditions. Any material adverse changes in one or more of these factors could reduce the value of, and the gains generated from, our investment portfolio and could have a material adverse effect on our financial condition and results of operations. In addition, as the derivatives market in the PRC remains immature as compared to that in certain developed countries, tools available to us to reduce market risks relating to our investment portfolio are limited.

A significant portion of our investment portfolio are debt securities. As of March 31, 2016, our investments in debt securities amounted to RMB1,893.0 billion, representing 65.1% of our total investment securities and other financial assets (net of allowance of impairment losses). The value of these debt securities may decrease substantially due to various factors, including but not limited to (i) the issuer's failure to repay due to bankruptcy, financial difficulties or other reasons, (ii) lack of liquidity, (iii) inflation, (iv) an increase in the current or expected market interest rates, or (v) changes in relevant government policies. For example, the return on the local government bonds we invest in may decline due to these factors. As of March 31, 2016, the balance of our directly invested local government bonds (includes the bonds issued and repaid by the MOF on behalf of local governments) was RMB153.0 billion, of which RMB2.0 billion was swapped from our loans extended to local government financing vehicles. During the Track Record Period, our directly invested local government bonds did not experience any defaults. If the value of the local government bonds or other debt securities we invest in significantly declines, our asset quality, financial condition and results of operations could be materially and adversely affected.

We also face the liquidity risk arising from certain debt investments with relatively long maturities. For example, in the second half of 2015, we purchased the long-term special financial bonds issued by China Development Bank and Agricultural Development Bank of China in an aggregate principal of RMB778.0 billion. The terms of such long-term financial bonds range from five years to 20 years. As of March 31, 2016, our investment in such special financial bonds accounted for 26.7% of our investment securities and other financial assets (net). We may continue to invest in debt assets with relatively longer maturities in the future, which may negatively affect our liquidity position while we hold them.

We are exposed to risks relating to our investments in special purpose vehicles.

Our interbank investments include investments in special purpose vehicles, such as commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds. See "Business — Our Principal Business — Treasury Business — Financial Market Business — Investment Business — Interbank Investments." As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments (including investments through other financial institutions) in commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds were RMB151.7 billion, RMB482.5 billion, RMB1,086.4 billion and RMB952.7 billion, respectively, representing 2.7%, 7.7%, 14.9% and 12.4%, respectively, of our total assets.

We are exposed to credit risk arising from our investments in special purpose vehicles. The income generated from these investments are generally fixed or determinable. We mitigate the risks in investing in such assets through various means, such as guarantees provided by domestic financial institutions, asset-backed instruments and structuring. In order to control the risk, we typically perform due diligence on the use of proceeds under the trust investment plans, and impose stringent qualification requirements on the trust companies, securities firms, investment funds and, where applicable, other relevant financial institutions that offer these investments in special purpose vehicles. See "Business — Our Principal Businesses — Treasury Business — Financial Market Business — Investment Business — Interbank Investments" and "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Risk Management for Treasury Business — Credit Risk Management of Interbank Investments." We may not be able to recover the principal of and interest on these investments in special purpose vehicles if the financial condition of the ultimate borrowers materially deteriorates. Also, we do not have direct recourse to the ultimate borrowers in the underlying transactions, and we can only rely on our rights under the related contracts to require the managers to perform their obligations and duties and demand compensation for our losses from the issuers and, if applicable, the guaranteeing financial institutions. Furthermore, because the guarantees and collaterals are not provided to us but to the trust companies or securities firms, we may not be able to directly claim the security interests on these guarantees or collaterals. In addition, because investments in special purpose vehicles are not tradable in the PRC interbank market or on the stock exchanges, and there has not yet been an active trading market for such products, we generally hold them to maturities and are therefore exposed to the related liquidity risk.

While the regulatory authorities currently permit commercial banks to invest in special purpose vehicles, there can be no assurance that there will not be material and adverse changes to the relevant regulations in the future. Any material and adverse regulatory changes could cause the value of our investment portfolio to decline, and may in turn materially and adversely affect our business, financial condition and results of operations. See "Supervision and Regulation — Regulation on Major Business of Commercial Banks — Interbank Business."

We are exposed to risks relating to wealth management business.

We have expanded our wealth management product offerings in recent years. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, we issued 550, 1,000, 1,616 and 340 tranches of wealth management products, respectively, and raised proceeds of RMB540.5 billion, RMB810.0 billion, RMB1,250.7 billion and RMB461.0 billion, respectively.

We invested proceeds from our wealth management products primarily in bonds and money market instruments, bank deposits, wealth management products and interbank borrowings, non-standard credit assets, and equity products. Compared to investments in bonds and money market instruments, investments in non-standard credit assets products generally entail higher risk. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments in non-standard credit assets accounted for 8.3%, 2.4%, 4.4% and 6.6%, respectively, of our total investment balance using proceeds raised from our wealth management products. See "— We are exposed to risks relating to our investments in special purpose vehicles" for details of the risks associated with investing in non-standard credit assets products.

Most of wealth management products we issued are non-principal-guaranteed. As of March 31, 2016, the amount of the principal-guaranteed and non-principal-guaranteed wealth management products under our management was RMB5.9 billion and RMB571.9 billion, respectively, representing 1.0% and 99.0%, respectively, of the total balance of wealth management products we issued. We are not liable for any loss suffered by the investors on our non-principal-guaranteed products. However, to the extent the investors suffer losses on these products, our reputation may be severely damaged and, as a result, we may lose our customers and their deposits with us. Furthermore, if the investors bring lawsuits and the courts rule against us, or we volunteer to compensate them for their losses out of reputational or other concerns, our business, financial condition and results of operations may be adversely affected.

The terms of certain wealth management products we issued are shorter than those of our investments. This maturity mismatch may force us, when existing wealth management products mature, to issue new wealth management products, dispose of the assets we invested in or take other actions to fill in the funding gap, and may subject us to liquidity risk.

China's regulatory authorities have introduced policies and regulations restricting the permitted amount of investment with the proceeds raised from wealth management products in non-standard credit assets by commercial banks. See "Supervision and Regulation — Regulation on Major Business of Commercial Banks — Wealth Management." If the regulatory authorities further restrict the wealth management business of commercial banks, our business, financial condition and results of operations could be adversely affected.

We cannot assure you that our various cost control strategies and measures will be continually and effectively implemented in the future and achieve their expected effects.

In 2013, 2014 and 2015 and for the three months ended March 31, 2016, our cost-to-income ratio was 65.6%, 60.9%, 60.7% and 61.1%, respectively. For the calculation of the cost-to-income ratio, see "Financial Information — Selected Financial Data." During the Track Record Period, we continually sought to improve our allocation of financial resources by various means, including cost classification and control and adoption of quota limits. However, we cannot assure you that these measures will continue to be effectively implemented in the future. In addition, we may have to adjust our cost control strategies and measures to respond to changes in the macroeconomic environment or to support our business development. If expected effects of these strategies and measures are not achieved, our operating costs may increase, which in turn may adversely affect our financial condition and results of operations.

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

We make commitments in the ordinary course of business which, under applicable accounting principles, are not reflected as liabilities on our balance sheet, including irrevocable loan commitment, bank acceptances, issued letters of guarantee and guarantees and unused credit card limits to our customers. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our off-balance sheet commitments totaled RMB113.9 billion, RMB168.0 billion, RMB317.7 billion and RMB337.0 billion, respectively. See "Financial Information — Off-balance Sheet Commitments." Because we will be required to fulfill these commitments when our customers are unable to perform their obligations, we are subject to credit risk associated with these off-balance sheet commitments. If we are unable to recover payment from our customers in respect of these commitments, our asset quality, financial condition and results of operations may be adversely affected.

We may be unable to meet capital adequacy requirements in the future.

We are subject to capital adequacy regulations set forth by the CBRC. Under relevant regulatory requirements we are required to maintain capital adequacy ratios at all tiers no lower than the minimum requirements under the Capital Administrative Measures (Provisional) during the transitional period for the implementation thereof. As of March 31, 2016, our core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio, each as calculated under the Capital Administrative Measures (Provisional), were 8.35%, 8.35% and 10.26%, respectively, which are in compliance with the above regulatory requirements. We cannot assure you that we would be able to meet capital adequacy requirements at all times. Our ability to satisfy the capital adequacy requirements could be adversely affected as a result of a deterioration in our financial condition and various other factors (such as potential increase in the minimum capital adequacy requirements, or changes in the methodologies for calculating the capital adequacy ratios as stipulated by the CBRC). To meet applicable capital adequacy requirements, we may have to limit the growth of our loan portfolio or otherwise restrict our business development, such as selling or otherwise disposing of certain assets on terms that are unfavorable to us or are inconsistent with our business plans. As a result, our business, financial condition and results of operations may be materially and adversely affected. For details of the capital adequacy requirements set by the CBRC, see "Supervision and Regulation — Supervision over Capital Adequacy."

We may have to raise additional capital to meet the capital adequacy requirements, and we may not be able to do so at a desirable cost or in a timely manner, or at all. Our ability to obtain additional capital may be restricted by a number of factors, many of which are beyond our control. These factors include our future financial condition, results of operations and liquidity, our credit rating, applicable regulatory licenses or approvals, the capital market condition, as well as the economic, political and other conditions both within and outside the PRC. If we are not able to obtain sufficient additional capital at a reasonable cost in a timely manner, or at all, we may not be able to comply with the above capital adequacy requirements. In addition, the Administrative Measures on the Leverage Ratio of Commercial Banks of the CBRC require us to maintain a leverage ratio of no lower than 4% by the end of 2016. Our leverage ratio was 3.47% as of March 31, 2016. If we are not able to meet the requirements of capital adequacy and leverage ratio, the CBRC may take regulatory actions against us, including restricting the growth of our loans and other assets, declining our application for business licenses, or restricting our ability to declare or distribute dividends. These actions may severely damage our reputation as well as materially and adversely affect our business, financial condition and results of operations.

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

Our business continued growing during the Track Record Period. We may not be able to continue to grow if we are not able to expand our product and service offerings to attract new customers, improve our marketing strategies, or broaden our distribution channels. Our ability to maintain our business growth is correlated to a number of factors affecting macroeconomic developments, such as China's GDP growth, the inflation rate, and the laws and regulations applicable to the banking and financial industries. We may not be able to maintain the current growth rate due to unfavorable changes in one or more of the above factors. See "— Risks Relating to the PRC — The PRC economic, political and social conditions and government policies may affect our business, financial condition, results of operations and prospects."

We need to continue to invest substantial financial, management and operational resources to sustain our growth. However, we cannot assure you that we will be able to continually obtain these resources in the future. For example, we may not be able to obtain additional internal and external capital on acceptable terms, or to retain and attract a sufficient number of qualified staff to support our business development. See "— We may not be able to recruit and retain a sufficient number of qualified staff."

We will be exposed to new risks as we continue to expand our product and service offerings.

We have been intensifying our product development efforts while continually expanding our product and service offerings to meet customer needs and to enhance our competitiveness. For example, as part of our growth strategy, we plan to introduce more fee- and commission-based products and services to reduce our reliance on interest income. We also plan to further improve our comprehensive operation capabilities and seek to open offices in Hong Kong or other countries or regions to explore overseas business opportunities. We may therefore be exposed to new, more challenging risks, including:

- insufficient experience or expertise in new products and services, which may prevent us from effectively competing with our competitors;
- imitation of new products and services by our competitors;
- lack of market acceptance of our new products and services among our customers;
- inability to provide satisfactory customer services;
- inability to attract necessary additional qualified staff on commercially reasonable terms;
- lack of necessary financial, operational, management and human resources;
- inability to obtain relevant regulatory approvals and permits;
- failure to comply with laws and regulations, approval or license requirements of the overseas markets into which we expand; and
- unsuccessful attempts to enhance our risk management and internal control capabilities and to improve our information systems.

If we are unable to successfully expand our product and service offerings, or our new products and services prove to be less profitable than expected due to above risks, our business, financial condition, results of operations and prospects may be materially and adversely affected. For example, if we are not successful in launching more fee- and commission-based products and services, we may have to continue to rely on interest income. This may cause us to face greater competition from other banks for interest income or to suffer from lower net interest margins due to the interest rate liberalization, which may in turn materially and adversely affect our business, financial condition and results of operations. See "— Risks Relating to the PRC Banking Industry — We are subject to risk relating to changes in interest rates and other market risks, and our ability to hedge market risks is limited."

We are subject to counterparty risks in our derivative transactions.

During the Track Record Period, we entered into foreign currency forward and swap contracts as well as interest rate swap agreements with domestic and international counterparties in domestic and international foreign exchange and derivative markets. While we believe that the overall creditworthiness of our counterparties is satisfactory, we cannot assure you that our counterparties with significant exposures will be able to timely and fully pay the amounts under relevant contracts when due.

Our current risk management and internal control system may not be sufficient to protect us against credit, market, liquidity, operational and other risks.

Our operations face a variety of risks, including credit risk, market risk, liquidity risk and operational risks. During the Track Record Period, we adopted various measures to strengthen our risk management capabilities, including improving our internal credit rating system, operational risk management, internal control, tools for assessing market risk and liquidity risk, legal risk management and reputational risk management, as well as continually upgrading our information systems. See "Risk Management — Our Recent Risk Management Reform Measures." Although we will update our risk management policies and procedures on an ongoing basis, our ability to successfully implement these measures and systems and to monitor and analyze their effectiveness is subject to constant testing and improvement. We cannot assure you that our risk management policies and procedures will be adequate to control all types of risks, or protect us from the impact of such risks.

In addition, our risk management and internal control capabilities are limited by the information, tools or technologies available to us. For example, our ability to effectively monitor credit risk may be compromised due to limited information sources or tools. See "— Our business depends on the proper functioning and continuous improvement of our information system" and "— Risks Relating to the PRC Banking Industry — The effectiveness of our credit risk management is restricted by the quality and scope of credit information available in the PRC." We will continually update and develop information systems for certain risks to enhance our risk management and internal control, and we cannot assure you that these systems will achieve their expected results.

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

We may not be able to recruit and retain a sufficient number of qualified staff.

Our future success depends significantly on the experience, expertise and marketing abilities of key personnel, including our senior management. Loss of these personnel may adversely affect our business and results of operations. In recent years, the competition among banks and financial institutions for talents has intensified, and we face fierce competition in attracting and retaining them.

Our business depends on the proper functioning and continuous improvement of our information systems.

Our business depends on the capabilities of our information systems to process a large number of transactions in an accurate and timely manner. The proper functioning of our financial control, risk management, credit analysis and reporting, accounting, customer services and other information systems, together with the communication networks among our branches and principal data processing centers, is critical to our business and improving our competitiveness. We conduct real-time data backup for the principal systems and communication networks to protect us against potential system failures, and we maintain integrated operation and maintenance systems and a disaster recovery structure of "two locations, three centers." See "Business — Information Technology." However, we cannot assure you that our business will not be materially disrupted if a partial or complete failure occurs in any of these systems, telecommunication network or the Internet. These failures may be caused by various factors, many of which are beyond our control. These factors include natural disasters, electric power or communication disruptions, software and hardware malfunctions, and computer viruses. The secure storage and transmission of confidential data is also critical to our operations. However, we may not be able to completely prevent loss or leakage of confidential data due to unforeseeable security loopholes (such as hacking and viruses) or disruptions (such as hardware and software defects or operational error). Any loss or leakage of confidential data may incur economic loss, loss of customer, or penalty imposed on us by regulatory authorities. In addition, in recent years, commercial banks and other financial institutions, including us, are heavily relying on proper functioning of information systems for business operations and therefore are vulnerable to cyber-attacks. Cyber-attacks may severely damage our online banking or mobile banking operations, causing temporary or pro-longed interruption or suspension of relevant services or leakage of confidential customer data. The occurrence of any above-mentioned incidents may adversely affect our business, financial condition and results of operations.

We outsource a portion of the development or maintenance of our information systems to third-party vendors. In light of the risks inherent in such outsourcing arrangements, such as unilateral termination of the contractual arrangements or disclosure of confidential data and business secrets by the vendors, we cannot assure you that these vendors will be able to provide us with stable and quality information technology services on a continual basis. We cannot assure you, either, that we will be able to renew the outsourcing arrangements on equivalent or more favorable terms when they expire, or that we can enter into alternative outsourcing arrangements on commercially reasonable terms.

If we are not able to streamline and upgrade our information systems in a timely and effective manner, we may not be able to maintain our competitiveness, and our risk management capabilities, business and prospects may be materially and adversely affected.

If we fail to protect customer information, we may be subject to legal and regulatory liabilities.

We gather, transmit, store and use customer information through the Internet and our information systems. We attach great importance to customer information security and have taken actions as appropriate to protect it. However, we may not be able to prevent the loss, leakage, theft or misuse of customer information resulting from hacking or virus infection caused by, among others, defective software and hardware or willful misconduct or negligence committed by the operators. If any of the above occurs, we may receive investigations, warnings or punishments from the regulatory authorities, or be subject to the obligations to compensate the victims as well as other legal and regulatory liabilities, any of which may adversely affect our reputation, business and prospects.

If we fail to fully comply with applicable regulatory requirements, our reputation could be damaged, and our business, financial condition and results of operations could be materially and adversely affected.

We are subject to regulatory requirements set forth by various PRC regulatory authorities, including but not limited to the PBOC, CBRC, CSRC, CIRC, NDRC, MOF, SAT, NAO, SAIC, SAFE, and their local offices. These regulatory authorities may conduct periodic or *ad hoc* inspections, spot checks and investigations on us and have the authority to impose fines on us or to require us to take remedial or corrective measures based on their findings.

During the Track Record Period, we failed to meet certain of the above regulatory requirements. See "Business — Legal and Regulatory Matters" and "Supervision and Regulation — Other Risk Management Ratios." We cannot assure you that we will be able to comply with all the applicable regulatory requirements at all times, or that we will not be subject to any penalties or be required to take remedial or corrective measures in the future as a result of such non-compliance. Our failure to comply with applicable regulatory requirements may damage our reputation and have a material adverse effect on our business, financial condition and results of operations.

We may be unable to effectively detect and prevent our employees, staff of our agency outlets, our customers or any other third parties from engaging in illegal activities or other misconduct.

Fraud or other misconduct committed by our employees or third parties may be difficult to detect or prevent and could subject us to financial losses and regulatory penalties as well as serious damage to our reputation.

Illegal activities and other misconduct committed by our employees and staff of our agency outlets include, but are not limited to, embezzlement, corruption, bribery, unauthorized extension of credit, illegal fund-raising, and fraud, as well as misappropriation, theft and deception of customer funds. For example, the employees at some of our directly-operated outlets were involved in the extension of loans with identity fraud. See "Business — Special Incidents." Furthermore, the illegal activities or misconduct of our customers or other third parties conducted to us, such as fraud, theft, and stealing of customer information, may damage our reputation or cause us to incur economic losses.

We may not be able to timely detect money laundering and other illegal or improper activities, which could harm our reputation or subject us to legal and regulatory liabilities.

We are governed by applicable PRC anti-money laundering and anti-terrorism laws and regulations. These laws and regulations require us to enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities, in order to prevent our network from being used for money laundering, terrorism or other illegal or improper activities. While we have strictly enforced the above policies and procedures, we may not be able to fully eliminate these activities in light of the relatively short history of these laws and regulations, and the complexity and the secrecy of these illegal or improper activities. We may therefore be subject to legal and regulatory liabilities, which may materially and adversely affect our business and harm our reputation.

Uncertainties in the global economy and, in particular, the PRC economy and the financial market could materially and adversely affect our financial condition and results of operations.

While the global economy has gradually recovered since the financial crisis in 2008, although at a slow pace, substantial uncertainties remain in the global and the PRC economy. In recent years, while major economies, such as the European Union and Japan, remained sluggish, China and some other emerging markets have seen slowing growth rates. According to the World Bank, growth rate of global economy for 2016 is projected to be 3%, which is far lower than the average growth rate of around 5% in the five years prior to 2008. According to the PRC government, China's real GDP growth rate in 2015 was 6.9%, which was the lowest in the past 25 years. The slowing global economy growth and other factors have resulted in fluctuations in the global raw materials prices, such as coal, oil and copper, and the increasing volatilities in the international capital markets. In addition, the increase in U.S. dollar interest rate in the United States, the world's largest economy, the quantitative easing or negative interest rate policies implemented by the European Union and Japan in recent years, and the impact of the proposed exit of the United Kingdom from the European Union, have further intensified the uncertainties in the global economy.

Uncertainties in the global and the PRC economies may lead to contraction of liquidity, reduced credit availability, deterioration in asset values, increase in bankruptcies, rising unemployment rates, declining consumer and business confidence and other adverse consequences. These uncertainties may adversely affect our financial condition and results of operations in many ways, including, among other things:

- During a period of economic slowdown, there is a greater likelihood that our customers or counterparties could become delinquent in respect of their loan repayments or other obligations to us, which, in turn, could result in a higher level of NPL ratio, allowance for impairment losses on loans and write-offs and thus adversely affect our results of operations and financial condition;

- The value of our investment securities and other financial assets may significantly decline, which may adversely affect our financial condition;

- Our ability to raise additional capital on favorable terms, or at all, may be adversely affected; and

- Trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect our business prospects.

If the global and the PRC economies continue to grow slowly, or even experience a downturn, our business, results of operations and financial condition could be materially and adversely affected.

We may be involved in legal and other disputes from time to time arising in the ordinary course of our business.

We may be involved in legal and other disputes from time to time arising in the ordinary course of our business. These disputes primarily relate to loan disputes. See "Business — Legal and Regulatory Matters." We make related provisions for the potential loss according to our policies. See "Supervision and Regulation — Loan Classification, Allowance and Write-offs — Loan Loss Allowance." We cannot assure you that we will obtain judgment favorable to us in litigations in which we are involved. Any disputes arising in the future may also damage our reputation, increase our operational costs, or divert our resources and management attention from our business.

Our controlling shareholder has the ability to exercise significant influence over us.

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), China Post Group is expected to hold approximately 69.23% of our issued shares. Certain Directors act as the senior management or hold other positions of China Post Group. For details of these Directors, see "Directors, Supervisors and Senior Management — Board of Directors." Under our Articles of Association and relevant laws and regulations, China Post Group may exercise significant influence over our major decisions (including but not limited to our management, business strategies and policies, the timing and size of dividends, plans for acquisition or disposal of material assets and mergers and acquisitions, issuance of securities and recapitalization), amendments to our Articles of Association and other matters that require the Board's approval. The interests of China Post Group may not be in line with those of other Shareholders and us. We may, under the influence of China Post Group, make decisions that are not in the best interests of other Shareholders and us.

Certain countries or persons with whom we or our customers transact with could be subject to U.S. sanctions or other sanctions.

U.S. law generally prohibits U.S. persons from directly or indirectly investing or otherwise doing business in or with certain countries or governments (such as Iran, Cuba, Crimea, North Korea, Sudan and Syria) and with certain persons or businesses that have been specially designated by the U.S. Treasury Department's Office of Foreign Assets Control or other U.S. government agencies. Other governments and international or regional organizations also administer similar economic sanctions.

We may provide trade settlement, payments and other services to customers doing business with, or located in, the above countries or persons to which sanctions apply. Our controls are designed from our position as a domestic bank without international operations and seek to ensure compliance with applicable sanctions laws and requirements in that domestic context. There is always the possibility that particular customers may engage in transactions that implicate the United States, European Union or other sanctions. If it is later determined that our customers have involved us in transactions that violate or are sanctionable under the United States or other sanctions regulations, we may be subject to sanctions or other penalties by the United States or other countries, and our reputation and future business prospects could be adversely affected.

There are legal defects regarding some of our properties.

As of March 31, 2016, we owned 3,138 properties with an aggregate GFA of approximately 3,566,503 square meters in the PRC, among which we have not obtained the state-owned land use right certificates and/or the building ownership certificates for 613 properties with an aggregate GFA of approximately 658,229 square meters. Furthermore, as of March 31, 2016, apart from the lands occupied by the above properties, we owned land use rights of 28 parcels of land with an aggregate area of approximately 372,692 square meters on which there were no properties under constructions or being completed. Among these parcels of land, we have not obtained the state-owned land use right certificates for 6 parcels of land with an aggregate area of approximately 35,739 square meters. We are in the process of actively applying for the relevant title certificates, and we have been cooperating closely with the relevant authorities to expedite the process. However, we cannot assure you that we will eventually obtain all of the required title certificates. If we are not able to continue to use the relevant properties or lands due to our failure to obtain such title certificates, we may incur additional costs as a result of the relocation or finding alternative properties, and our business, financial condition and results of operations may also be adversely affected.

As of March 31, 2016, we leased 13,659 properties with an aggregate GFA of approximately 5,816,003 square meters in the PRC, which were primarily used as premises for our businesses and offices. Among these properties, 6,023 properties with an aggregate GFA of approximately 2,252,259 square meters were leased from lessors who were not able to provide the building ownership certificates of these properties or documents from the title owners of such properties authorizing the lessors to lease out these properties. Therefore, the validity of such leases may be subject to legal challenge. In addition, 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, as we have not completed the relevant lease registration procedures for 13,205 leased properties. Further, we cannot assure you that we would be able to renew our leases on acceptable terms upon their expiration. If we are not able to renew them upon expiration, or if relevant leases are terminated as a result of challenges therewith by third parties, we may be forced to relocate from affected properties and incur additional costs, and our business, financial condition and results of operations may be adversely affected.

For details of our properties, see “Business — Properties.”

We may not be able to successfully register our name or relevant trademarks in Hong Kong, and we may not be able to continue to use certain trademarks as permitted by China Post Group.

We have filed applications for registering our name and a series of trademarks pertaining to our name or its key words in Hong Kong. As of the Latest Practicable Date, some of these applications were still pending the approval of Trade Marks Registry under the Intellectual Property Department of the Hong Kong Government. See "Statutory and General Information — Intellectual Property Rights — Trademarks" in Appendix VII to this prospectus. We cannot assure you that these applications will ultimately be approved. If we fail to register the above name or trademarks, or if the registration process is delayed, our name or trademarks may be infringed, and we may be deemed to infringe upon the third party's right for using such name or trademarks. Our business, financial condition, results of operations and prospects may therefore be materially and adversely affected.

We have entered into a Trademark Licensing Agreement with China Post Group, pursuant to which China Post Group grants us the rights to use certain trademarks which are registered or pending application for registration in the PRC and/or Hong Kong by China Post Group, including the trademarks and . For details of the Trademark Licensing Agreement and the trademarks and , see "Connected Transactions — Exempt Continuing Connected Transactions — Trademark Licensing" and "Statutory and General Information — Intellectual Property Rights — Trademarks" in Appendix VII to this prospectus. As of the Latest Practicable Date, China Post Group has applied for the registration of these trademarks in Hong Kong. However, we cannot assure you that such application will ultimately be approved. If China Post Group fails to register the trademarks and , such trademarks may be infringed, and we may be deemed to infringe upon the third party's right for using such trademarks, which may, in turn, materially and adversely affect our business, financial condition, results of operations and prospects.

RISKS RELATING TO THE PRC BANKING INDUSTRY

We face intensifying competition from other banks and financial institutions in the PRC banking industry, as well as competition from alternative investment and financing channels.

We compete with other commercial banks and financial institutions. Our competitors primarily include other Large Commercial Banks, nationwide joint-stock commercial banks and rural banking financial institutions. Our competitors may have stronger competitive strengths, and more financial, management and technology resources in certain areas than we do. Additionally, as the PRC banking sector becomes increasingly open to private capital, we expect to face enhanced competition from privately owned banks. We compete with our main competitors for substantially the same customer base for loans, deposits, and fee- and commission-based businesses. If we are not able to effectively compete, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We also face competition from other investment alternatives. In recent years, there has been a trend of accelerating financial disintermediation in the PRC, driven by the development of the capital markets, the diversification of customer demand as well as the emergence and development of new financial products. Financial disintermediation involves investors' funds moved from commercial banks and other financial institutions to direct investments. As a result, our deposit customers may withdraw their funds placed with us and invest them in stocks, debt securities and wealth management products. This will lead to a decrease in our customer deposits, our most important source of funds for our lending business, which in turn may reduce our net interest income. In addition, we also face competition from direct corporate financing, such as the issuance of securities. If a substantial number of our customers choose alternative ways of financing to meet their funding needs, our business, financial condition and results of operations could be materially and adversely affected.

Commercial banks face competition from the Internet-based financial service industry.

In recent years, Internet-based financial service companies are developing rapidly in China. At present, the major financial services provided by China's Internet-based financial service companies include online personal loans, third-party online and mobile payment, as well as online and mobile wealth management. China's commercial banks are facing the challenges with respect to products, technologies and customer experience. Personal loan products provided by Internet-based financial service companies may result in decreased demand of retail customers for commercial banks' loans. Various funds and Internet wealth management products have developed rapidly, which may result in outflows of a large amount of saving deposits from commercial banks and then return to commercial banks in the form of interbank deposits. As a result, commercial banks may experience increased funding costs and narrowed interest margins, and therefore, reduced profitability. With the further development of the Internet, many non-banking financial institutions have started to distribute financial products on Internet platforms, which has affected commercial banks' fee income for agency services. Competition from the Internet-based financial service industry may materially and adversely affect our business, financial condition, results of operations and prospects.

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

The PRC banking industry has grown rapidly along with China's economic development and increases in household income. However, uncertainties remain as to whether the PRC banking industry will sustain the current growth rate. The profit growth rate of the PRC banking industry has substantially declined in recent years due to a variety of reasons, including, among others, slowdown in the PRC economy and other adverse macroeconomic developments in the PRC and other major economies, industrial overcapacity, and local government debts related issues. The current rapid growth of the PRC banking industry may not be sustainable.

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

The PRC banking industry is highly regulated. We are subject to the policies, laws and regulations relating to the banking industry and the regulatory requirements and guidelines set forth by various regulatory authorities including, but are not limited to, the PBOC, CBRC, CSRC, CIRC, NDRC, MOF, SAT, NAO, SAIC and SAFE and their respective local offices. These policies, laws and regulations and the regulatory requirements and guidelines impose requirements on, among others, banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. The regulatory authorities may conduct periodic or *ad hoc* inspections, spot checks and investigations on us and have the authority to impose fines on us or to require us to take remedial or corrective measures based on their findings. These policies, laws and regulations and regulatory requirements and guidelines are subject to change, and we may not be able to adapt to such changes in a timely manner, or at all. Fines or other penalties may be imposed on us, which may materially and adversely affect our business, financial condition, results of operations and prospects.

IFRS 9 and its amendments may require us to change our provisioning practice for impairment of financial assets in the future.

We currently assess the impairment of our loans and investment assets under IAS 39. The determination of impairment requires our management to exercise significant judgment and discretion. See "Financial Information — Critical Accounting Estimates and Judgments." The International Accounting Standards Board ("IASB"), which is responsible for developing and revising international financial reporting standards, issued IFRS 9, which will replace the IAS 39 and will take effect on January 1, 2018. Firstly, one of the major differences between IFRS 9 and IAS 39 is the classification and measurement of 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. Secondly, for debt instruments 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 and does not use the existence of an objective evidence of impairment as a precondition for recognizing credit losses. It is not practicable to provide a reasonable estimate of the effect or quantify the impact on our operating results and financial position until we make a detailed assessment as the new standard requires changes to systems and processes to collect necessary data. We will change our current provisioning practice in the future in accordance with IFRS 9 and any other future amendments to IAS 39 or similar standards, including any authoritative interpretive guidance on the application of such new or revised standards, which may in turn materially affect our business, financial condition and results of operations.

We are subject to risk relating to changes in interest rates and other market risks, and our ability to hedge market risks is limited.

We significantly rely on our net interest income. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, our net interest income represented 95.7%, 96.5%, 94.0% and 87.8%, respectively, of our operating income.

Adjustments by the PBOC to the benchmark interest rates on loans or deposits may adversely affect our financial condition and results of operations. The PBOC has adjusted the benchmark interest rates several times in recent years. The PBOC increased benchmark interest rates to restrain inflation and cool down the PRC economy in 2011, while it reduced the benchmark interest rates in response to the global economic recession in 2012, 2014 and 2015. For historical changes in the benchmark interest rates, see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits." Adjustments to the benchmark interest rates could affect the average yield on our interest-earning assets and the average cost on our interest-bearing liabilities to different extents. Any such adjustments or any changes in the market interest rates could cause our interest expenses to increase at a faster rate than our interest income, thus reducing our net interest spread and net interest margin, which, in turn, could materially impact our financial condition and results of operations.

Interest rates in the PRC have been gradually liberalized in recent years. The PBOC has fully lifted restrictions on the interest rates for RMB-denominated loans (except for residential mortgage loans) since July 2013, and those on the upper limit of interest rates for deposits with commercial banks and rural cooperative financial institutions since October 2015. Loan-deposit spreads in the PRC banking industry may further narrow due to market competition, which could reduce our operating income. Furthermore, we cannot assure you that we will be able to adjust the composition of our asset and liability and our pricing mechanism to effectively accommodate the interest rate liberalization.

As a crucial step for interest rate liberalization in the PRC, the Regulations on Deposit Insurance* (存款保險條例) were officially implemented on May 1, 2015. These regulations emphasize protecting the depositors' interests and may change the structure of deposits. As these regulations were only recently implemented, and their influence on us cannot yet be measured accurately, we cannot assure you that their implementation will not act as a drain on our customers with large deposits, which could, in turn, materially and adversely affect our financial condition and results of operations.

We also engage in trading and investing in securities and other financial instruments. Income generated from these activities are subject to volatilities caused by, among other things, changes in the interest rates and foreign exchange rates. For example, increases in interest rates usually negatively affect the value of our fixed income securities portfolio. In addition, because the PRC derivatives market remains relatively underdeveloped, we may not be able to effectively hedge these market risks.

Volatility in the interest rates of interbank market could significantly increase our borrowing cost and materially and adversely affect our liquidity, financial condition and results of operations.

We manage our liquidity partly through short-term borrowing in the interbank market. As of March 31, 2016, deposits from banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under repurchase agreements represented 2.6%, 1.0% and 3.7% of our total liabilities, respectively.

Any significant changes in the liquidity and interest rates in the PRC interbank market could affect our financing cost. An interbank interest rate system based on SHIBOR is developing in the PRC. However, due to the relatively short history of the PRC interbank market, there may be significant volatility in market interest rates. We cannot assure you that the 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. Any significant volatility in interest rates in the interbank market may have a material adverse effect on our cost of borrowing of short-term funds and our liquidity.

In addition, pursuant to the Notice on Regulating Interbank Business between Financial Institutions* (關於規範金融機構同業業務的通知) jointly promulgated by the PBOC and other governmental authorities on April 24, 2014, the net balance of interbank lending of a commercial bank to a single financial corporation (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weighting shall not exceed 50% of its Tier 1 capital. The balance of interbank borrowing of a commercial bank shall not exceed one third of its total liabilities. As of the Latest Practicable Date, we have been in compliance with the above regulatory requirements. Subject to the above laws and regulations, we may not be able to acquire sufficient short-term funds from the interbank market at all times, and the regulatory authorities may further impose restrictions on interbank business and interbank borrowing. This may increase our borrowing costs and may adversely affect our liquidity.

Applicable laws and regulations impose certain limitations on the products in which commercial banks may invest, which limit our ability to seek higher investment returns and to diversify our investment portfolio.

Investment by commercial banks in the PRC is subject to a number of regulatory restrictions. Traditionally, the investment assets of PRC commercial banks consist primarily of debt securities issued by the MOF, the PBOC, policy banks, PRC commercial banks and corporates. In recent years, due to the changing regulatory regimes and market conditions, the scope of investments available to PRC commercial banks has been broadened to include, among others, trust investment plans, asset management plans, wealth management products issued by commercial banks, investment funds, asset-backed securities, beneficiary rights in margin financing, and beneficiary certificates. However, permitted equity investments by commercial banks remain restricted. Therefore, our ability to seek optimal returns through diversifying our investment portfolio may be limited. Moreover, a substantial portion of our investment assets are RMB-denominated and our ability to manage the risks relating to the RMB-denominated assets is restricted due to the limited hedging instruments available in the market. A short-term significant decrease in the value of our RMB-denominated assets could materially and adversely affect our financial condition and results of operations.

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

The completeness and reliability of information on customer credit risk available in the PRC is relatively limited. The PBOC has developed and put into use a national personal and corporate credit information database. While it has made some progress in recent years, the database remained relatively underdeveloped and the information available to us is limited. As a result, we may not be able to fully assess the credit risk of certain customers based on complete, accurate and reliable information. We have to rely on other publicly available or our internal information sources, which may not be adequate in assessing the credit risk for certain customers. Moreover, the financial and other restrictive provisions contained in the common loan contracts in the PRC may differ from those in other countries or regions, which may prevent us from effectively and timely monitoring credit rating changes of our customers. As a result, our ability to effectively manage credit risk may be limited, which could in turn materially and adversely affect our business, financial condition and results of operations.

The transition from business tax to value-added tax may adversely affect our business, 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 ("VAT") 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* (關於全面推開營業税改徵增值税試點的通知) and the Implementing Measures for the Pilot Program for Transition from Business Tax to Value-added Tax* (營業税改徵增值税試點實施辦法) issued by the 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 VAT instead of business tax on the same date.

The transition from business tax to VAT has to a certain extent affected our operating income as the VAT is not included in sales of goods or services. We have only recently become subject to the VAT regime. In addition, the PRC government may further supplement and amend relevant policies and rules, and different interpretations may be applied in implementing these policies and rules. As a result, uncertainties remain as to the tax treatment of our income and expenses under the new VAT regime. We will conduct on-going assessment on the impact on our tax burden and profitability caused by the transition from business tax to VAT. We cannot assure you that the transition from business tax to VAT will not have an adverse impact on 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 with respect to the PRC, the PRC economy or the PRC banking industry.

Facts, forecasts and statistics in this prospectus relating to the PRC, its economy and financial conditions and its banking industry, including our market share information, are derived from various sources which are generally believed to be reliable. However, we cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by us and may not be consistent with the information available from other sources, and may not be complete or up to date. We have taken reasonable caution in reproducing or extracting the information from the above sources. However, due to differences in preparation methods, 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 of other economies.

Investments in the PRC commercial banks are subject to restrictions that may materially and adversely affect the value of your investment.

Investments in the PRC commercial banks are subject to a number of ownership restrictions. For example, prior approval from the CBRC is required for any person or entity to hold 5% or more of the registered capital or total issued shares of a commercial bank in China, unless otherwise required by the approval authority. If a shareholder of a commercial bank in China increases its shareholding above the 5% threshold without obtaining prior approval from the CBRC, such shareholder may be subject to sanctions by the CBRC, which include correction of such misconduct, confiscation of illegal gains or fines. Under the PRC Company Law and the Guidelines on the Corporate Governance, we may not extend any loans that use our shares as collateral. Under the Guidelines on the Corporate

Governance, the Notice of CBRC on Strengthening the Management of Equity Pledge of Commercial Banks* (《中國銀監會關於加強商業銀行股權質押管理的通知》) and/or our Articles of Association, a Shareholder must notify our Board 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 fiscal 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' meetings and Board meetings, respectively, if such Shareholders fail to repay outstanding borrowings when due or the number of shares pledged by a Shareholder reaches or exceeds 50% of the total shares of our Bank held by such Shareholder. Changes of restrictions on our Shareholders and their shareholding in us as imposed by the PRC government or as provided for in our Articles of Association, may materially and adversely affect the value of your investment in the future.

Our business, financial condition, results of operations and prospects and the value of your investment may be adversely affected as a result of negative media coverage of the overall China's banking industry or those relating to us or our controlling shareholder.

China's banking industry has been covered extensively and critically by various news media. Historical coverage includes incidents of fraud committed by onshore banks and issues relating to NPL ratio, loan quality, capital adequacy, repayment capability, profitability, internal control and risk management. There was also negative media coverage relating to us in the past. In addition, China Post Group, our controlling shareholder, and its other subsidiaries may from time to time be subject to negative media coverage. Negative media coverage, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation and may undermine the confidence of our customers and investors. Our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected as a result.

RISKS RELATING TO THE PRC

The PRC economic, political and social conditions and government policies may affect our business, financial condition, results of operations and prospects.

Substantially all of our businesses and assets are located in the PRC, and a substantial majority of our revenues are derived from our operations in the PRC. As a result, our business, financial condition, results of operations and prospects are subject, to a significant degree, to the economic, political, social conditions and regulatory environment in the PRC.

The PRC economy has undergone a transition from a planned economy to a market-oriented one. The PRC government has taken various actions to introduce market forces for economic reform to promote the establishment of sound corporate governance in business entities. However, the PRC government still retains significant control over PRC's economic growth through monetary, fiscal, industrial, and regional policies. We may need to comply with the policy guidelines set by the PRC government in the course of our business operations.

Our operating performance has been and will continue to be affected by the PRC economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy and the political environment in various regions of the world will continue to impact PRC's economic growth. See "— Risks Relating to Our Business — Uncertainties in the global economy and, in particular, the PRC economy and the financial market could materially and adversely affect our financial condition and results of operations." 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, financial condition and results of operations.

The PRC legal system could limit the legal protections available to you.

We are incorporated under the laws of the PRC, and our business operations are regulated by laws and regulations 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 1979, the PRC government has promulgated laws and regulations dealing with such economic matters as 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 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.

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

We are incorporated under the laws of the PRC, and substantially all of our assets are located in the PRC. In addition, a majority of our Directors, Supervisors and senior management personnel reside within the PRC, and substantially all of 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 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.

On July 14, 2006, the Supreme People's Court of the PRC and the government of Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of 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 under 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. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement remain uncertain. In addition, the PRC has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and most other western countries, and 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 judgment of a court in the United States or any other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

You will generally be subject to PRC withholding tax on dividends received on our H Shares, and may be subject to PRC tax on gains realized on the disposition 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 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) with respect to PRC source income or gains 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 related tax from dividend payments. Pursuant to applicable regulations, domestic non-foreign-invested enterprises issuing H shares in Hong Kong may generally, when distributing dividends, withhold individual income tax at the rate of 10%. However, withholding tax on distributions paid by us to non-PRC individuals may be imposed at other rates pursuant to applicable tax treaties (and up to 20% if no tax treaty is applicable) if the identity of the individual holder of H shares and the tax rate applicable thereto are known to us. There is uncertainty as to whether gains realized upon disposition of H shares by non-PRC individuals are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or that 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 disposition of equity interests in the PRC companies pursuant to the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) and other applicable PRC tax regulations and statutory documents, which may be reduced or eliminated under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-resident enterprise resides. Pursuant to applicable regulations, we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of H shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' verification. 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 significant uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including whether and how individual income tax or enterprise income tax on gains derived by holders of our H Shares from their disposition of our H Shares may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected. See "Appendix VI — Taxation and Foreign Exchange — Taxation — Taxation in the PRC" to this prospectus.

Payment of dividends is subject to restrictions under PRC laws.

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

We are exposed to risk relating to PRC government controls on currency conversion and fluctuations in exchange rates.

Substantially all of our revenue is denominated in Renminbi, which is currently not a fully freely convertible currency. A portion of our revenues must be converted into other currencies in order to meet our foreign currency obligations. For example, we need to obtain foreign currency to make payments of declared dividends, if any, on our H Shares. Under existing PRC laws and regulations on foreign exchange, following the completion of the Global Offering, we will be able to make dividend payments in foreign currencies without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. As a result, we may not be able to pay dividends in foreign currencies to holders of our H Shares.

We are also exposed to risk relating to fluctuations in exchange rates. The value of the Renminbi against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in the PRC and international political and economic conditions and the fiscal, monetary and foreign exchange policies prescribed by the PRC government. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and with reference to a basket of currencies. The PRC government has since introduced further changes to the exchange rate system in 2012 and 2014. On August 11, 2015, the PBOC announced to reform the central parity quotations of Renminbi against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate on 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 by nearly 2% as compared to August 10, 2015. From August 11, 2015 to the Latest Practicable Date, the central parity of Renminbi against the U.S. dollar fluctuated between 0.1493 and 0.1583, according to the PBOC. 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 changes to the exchange rate system.

As of March 31, 2016, only 1.1% of our assets and 0.3% of our liabilities were denominated in foreign currencies. Therefore, we believe that our current exposure to risk relating to fluctuations in exchange rates is limited. However, as our foreign currency business expands, any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets, which could in turn adversely affect our business, financial condition and results of operations. Moreover, any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may also materially and adversely affect the financial condition of certain of our customers, particularly those deriving substantial income from export related businesses, and their ability to perform their obligations to us. 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 to us to hedge our exchange rate risk at reasonable cost are limited, we cannot assure you that we will be able to fully hedge our exchange rate risk exposure relating to our foreign currency-denominated assets. Furthermore, we are required to obtain approval from the SAFE before converting large amounts of foreign currencies into Renminbi. All of these factors could adversely affect our financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on our business, financial condition and results of operations.

Any future occurrence of force majeure events, 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 areas where we operate. These areas may be under the threat of typhoon, tornado, snow storm, earthquake, flood, drought, power shortages or failures, or are susceptible to epidemics, various types of influenza, potential wars or terrorist attacks, riots, disturbances or strikes. Serious natural disasters may result in tremendous casualties and destruction of assets and disrupt our business and operations. Severe contagious disease outbreaks could result in a widespread health crisis that could materially and adversely affect business activities and operations in the affected regions. Acts of war or terrorist activities, riots or disturbances may also cause casualties to our employees, and disrupt our business network and operations. Any of these factors or other factors beyond our control could have an adverse effect on the overall business environment of the areas where we operate and therefore negatively affect our business and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

An active public market for our H Shares may not develop or be sustained, and their trading price may fluctuate significantly.

Prior to the Global Offering, there was no public market for our H Shares. We cannot assure you that an active public market for our H Shares will develop or be sustained following the completion of the Global Offering. In addition, the offer price of our H Shares is expected to be fixed by agreement between the Joint Bookrunners on behalf of the Underwriters and us and may not be indicative of the market price of our H Shares following the completion of the Global Offering. If an active public market for our H Shares does not develop or be sustained following the completion of the Global Offering, the market price and liquidity of our H Shares may be adversely affected.

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

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

Future sales (or perceived sales) or conversion of our securities in the public market (including any future conversion of our Domestic Shares into H Shares) could adversely affect the market price of our H Shares and our ability to raise capital in the future, or may result in dilution of your shareholding.

The market price of our H Shares could decline as a result of future sales of substantial amount of our Shares or other securities relating to our Shares in the public market, or the issuance of new H Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amount of our securities, including any future offerings, could materially and adversely affect the market price of our H Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our Shareholders would experience a dilution in their holdings upon the issuance of additional securities regardless of the purpose. If additional funds were raised through our issuance of new equity or equity-linked securities other than on a pro-rata basis to existing Shareholders, the ownership percentage of such Shareholders could be reduced and such new securities might confer rights and privileges that take priority over those conferred by the H Shares.

A certain number of our Shares held by existing Shareholders are or will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See "Share Capital — Transfer of Shares Issued Prior to the Global Offering" and "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Undertakings pursuant to the Hong Kong Listing Rules and the Underwriting Agreement." After the lapse of the restrictions mentioned above, future sales or perceived sales of substantial amount of our H Shares could negatively impact the market price of our H Shares and our ability to raise equity capital in the future. In addition, a portion of the H Shares in the Global Offering will be subscribed by the Cornerstone Investors. While the Cornerstone Investors have agreed not, directly or indirectly, at any time within the period of six months following the Listing Date, to dispose of any of such H Shares, such restrictions do not apply to certain Cornerstone Investors where such Cornerstone Investors may use the relevant H Shares as security (including as a charge or a pledge) for a bona fide commercial loan, which could include a pledge of such shares as security for a loan to finance the purchase of relevant H Shares. If such pledge were to be created and subsequently enforced, such shares may be available for sale during the relevant lock-up period.

Upon the completion of the Global Offering, the NSSF will hold a portion of our H Shares. These H Shares are not subject to any lock-up restrictions. Any future sales or perceived sales of our H Shares by the NSSF may adversely affect the market price of our H Shares. Any conversion from Domestic Shares into the H Shares may materially and adversely affect the prevailing market price of the H Shares, and may result in dilution in shareholding of holders of our H Shares. See "Share Capital."

Upon the completion of the Global Offering and the conversion of unlisted Foreign Shares held by our existing foreign Shareholders, we will have two classes of ordinary shares, namely H Shares and Domestic Shares. None of our Domestic Shares is listed or traded on any stock exchange. Assuming the Over-allotment Option is not exercised, there will be 19,505,921,000 H Shares representing 24.17% of our enlarged share capital, and 61,204,667,000 Domestic Shares representing 75.83% of our enlarged share capital. The holders of Domestic Shares may convert their Domestic Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have been approved by the securities regulatory authorities of the State Council, including the CSRC. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval by the Hong Kong Stock Exchange. No class shareholder vote is required for the conversion of such Shares and the listing and trading of the converted Shares on an overseas stock exchange. Future sales, or perceived sales, of the converted Shares may adversely affect the trading price of H Shares.

You may incur immediate dilution because the Offer Price of the H Shares may be higher than the net tangible asset value per Share.

The initial public offering price of our H Shares may be higher than the pro forma adjusted net tangible assets per Share as of March 31, 2016. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets per Share and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible assets per Share of their Shares. In addition, holders of our H Shares may experience a further dilution of their shareholding percentage if the Joint Representatives on behalf of the International Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

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

In 2013, 2014, 2015 and for the three months ended March 31, 2016, we distributed total cash dividends of RMB2.0 billion, nil, nil and RMB5.0 billion, respectively.

In March 2016, we determined that cash dividends of RMB9.0 billion were payable to China Post Group out of the distributable profit for the period from January 1, 2015 to December 17, 2015, the closing date of the capital injection by the Strategic Investors. As of the Latest Practicable Date, we had fully paid such cash dividends of RMB9.0 billion to China Post Group.

The amount of dividends we paid historically is not indicative of the amount of dividends that we may pay in the future. Any future declaration of dividends will be approved by our Shareholders' general meeting. In formulating our dividend policies, we attach importance to providing reasonable returns for our investors and keeping continuous and stable dividend policies while taking into consideration our long-term benefits, overall benefits of our Shareholders and our sustainable development. However, whether we pay dividends and the amount of dividends also depend on various other factors, including our financial condition, results of operations, prospects, capital adequacy and other factors. For further details of our dividend policy, see "Financial Information — Dividend Policy." We cannot guarantee whether and when we will pay dividends in the future.

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. Some of these articles may include, among other things, certain financial information, projections, valuations and other information about the Global Offering that are not contained in this prospectus. We have not authorized the disclosure of any such information in any press or media. We do not accept any responsibility for any information which is not sourced from or authorized by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information reported by the press or other media, nor the fairness, appropriateness or reliability of any forecasts, views or opinions conveyed by the press or other media regarding our H Shares, the Global Offering or us. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility for it and you should not rely on such information. Accordingly, you should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. By applying to purchase the Offer Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than the information contained in this prospectus and the Application Forms.

There will be a time gap of several business days between pricing and trading of the H Shares offered by us in the Global Offering. Accordingly, holders of our H Shares may be subject to the risk that the H Shares trading price could fall before trading of our H Shares begins.

The initial price range of public offering of our H Shares is determined on the date of this prospectus. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence 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 may be 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 unfavorable circumstances that may occur between the time of sale and the time trading begins.

Possible FATCA Withholding After 2018

Provisions under the Internal Revenue Code of 1986, as amended, and treasury regulations thereunder (commonly referred to as "FATCA") impose 30% withholding on certain "foreign passthru payments" made by a non-U.S. financial institution (including an intermediary) that has not entered into an agreement with the U.S. Internal Revenue Service to perform certain diligence and reporting obligations with respect to the financial institution's U.S.-owned accounts (each such non-U.S. financial institution, a "Participating Foreign Financial Institution"). If our Bank or any intermediary through which a holder may hold H Shares is or becomes a Participating Foreign Financial Institution, this withholding may be imposed on payments on the H Shares to any non-U.S. financial institution (including an intermediary) that is not a Participating Foreign Financial Institution and is not otherwise exempt from FATCA and other holders who do not provide sufficient identifying information, to the extent such payments are considered "foreign passthru payments." 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 made before January 1, 2019. The United States has entered into intergovernmental agreements with many jurisdictions (including an agreement in substance with China) that modify the FATCA withholding regime described above. It is not yet clear how these intergovernmental agreements will address "foreign passthru payments" and whether such agreements will require financial institutions to withhold on foreign passthru payments. Our Bank has registered with the U.S. Internal Revenue Service as a financial institution for FATCA purposes. Prospective investors should consult their tax advisors regarding the consequences of FATCA, or any intergovernmental agreement or non-U.S. legislation implementing FATCA, to their investment in H Shares.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving our information to the public with regard to the Bank. Our 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 facts the omission of which would make any statement in this prospectus misleading or deceptive.

CBRC AND CSRC APPROVAL

The CBRC and CSRC issued an approval letter on June 24, 2016 and August 15, 2016, respectively, for our Global Offering and application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, neither the CBRC nor the CSRC accepts any responsibility for our financial soundness, nor do they accept any responsibility for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms. No other approvals are required to be obtained for the listing of the H Shares on the Hong Kong Stock Exchange.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the H Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of such information.

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

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

OFFER SHARES FULLY UNDERWRITTEN

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in the section headed "Underwriting" and is subject to the Hong Kong Underwriting Agreement between, among others, the Joint Representatives (for themselves and on behalf of, among others, the Hong Kong Underwriters) and us and the Offer Price to be agreed on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters.

If, for any reason, the Offer Price is not agreed between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us on or before September 22, 2016, the Global Offering will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

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.

OVER-ALLOTMENT OPTION AND STABILIZATION

In connection with the Global Offering, the Stabilizing Manager or its affiliates or any person acting for them may over-allocate H Shares or effect any other transactions with a view to stabilizing and maintaining the market price of the Offer Shares at a level higher than which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or its affiliates or any person acting for them to conduct any such stabilizing action.

In connection with the Global Offering, our Bank is expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Representatives (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Bank may be required to issue at the Offer Price up to an aggregate of additional 1,815,988,000 H Shares, representing approximately 15% of the total number of H Shares initially available under the Global Offering.

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed "Structure of the Global Offering" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF H SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her/its acquisition of the Hong Kong Offer Shares to, confirm that he/she/it is aware of the restrictions on offers and sales of the Hong Kong Offer Shares described in this prospectus and the Application Forms.

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 and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

APPLICATION FOR LISTING OF THE H SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, (i) our 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); (ii) the H Shares to be converted from the Domestic Shares and transferred to NSSF pursuant to the relevant PRC regulations relating to reduction of state-owned shares; and (iii) the H Shares to be converted from the unlisted Foreign Shares held by UBS, CPPIB, JPMorgan CICII, FMPL, IFC and DBS Bank.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the H Shares to be listed on the Hong Kong Stock Exchange pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on September 28, 2016. Except for our application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on the Hong Kong Stock Exchange or any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H SHARE REGISTER AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on the H Share register of members of our Bank maintained by our H Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Our register of members will also be maintained by us at our legal address in the PRC.

Dealings in the H Shares registered on the H Share register of members of our Bank in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the H Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

Unless determined otherwise by the Bank, dividends payable in respect of our 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.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have 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:

(i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Special Regulations and our Articles of Association;

(ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our 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;

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

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

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors 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. None of us, the Joint Representatives, 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, or the exercise of any rights in relation to, the H Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Renminbi and U.S. dollars have been converted, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

RMB0.86019 to HK$1.00000 (being the prevailing exchange rate on September 2, 2016 set by the PBOC)

HK$7.7555 to US$1.0000 (being the exchange rate in effect on September 2, 2016 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on September 6, 2016)

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Provided, however, that translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including our subsidiary), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of such inconsistency, the Chinese name prevails.

ROUNDING

Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since most of the business operations of our Bank are managed and conducted outside of Hong Kong, and a majority of our Directors ordinarily reside outside Hong Kong, we do not have, and do not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, pursuant to Rule 19A.15 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the following conditions:

(a) we have appointed Ms. Yao Hong and Mr. Xu Xueming as authorized representatives for the purpose of Rules 3.05 and 19A.07 of the Listing Rules to serve as our principal channel of communication with the Hong Kong Stock Exchange. We have provided the Hong Kong Stock Exchange with their contact details, and they can be readily contactable to promptly deal with enquiries from the Hong Kong Stock Exchange, and will also be available to meet with the Hong Kong Stock Exchange to discuss any matters on short notice. As and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters, each of the authorized representatives will have means to contact all of our Directors promptly at all times. We will also inform the Hong Kong Stock Exchange promptly in respect of any changes in the authorized representatives.

(b) one of our independent non-executive Directors, Mr. Fu Tingmei, will be ordinarily resident in Hong Kong and will serve as an additional channel of communication between our Bank and the Hong Kong Stock Exchange. We have provided the Hong Kong Stock Exchange with the contact details (i.e. mobile phone number, office phone number, e-mail address and fax number) of each Director to facilitate communication with the Hong Kong Stock Exchange. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange within a reasonable period as and when required.

(c) we have appointed a compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional and alternative channel of communication with the Hong Kong Stock Exchange, and its representative will be readily available to answer enquiries from the Hong Kong Stock Exchange. Pursuant to Rule 19A.06(4) of the Listing Rules, the compliance advisor will provide the Hong Kong Stock Exchange with the names and contact details, including home and office telephone numbers and where available, facsimile numbers, of its representative. Pursuant to Rule 19A.05(2) of the Listing Rules, we will ensure that the compliance advisor will have reasonable access to the authorized representatives, Directors and other officers of our Bank. We will also procure that such persons provide to the compliance advisor such information and assistance as the compliance advisor may need or may reasonably request in connection with the performance of its duties as set forth in Chapter 3A and Rule 19A.06 of the Listing Rules. We will ensure that there are adequate and efficient means of communication between us, authorized representatives, Directors and other officers and the compliance advisor, and will keep the compliance advisor fully informed of all communications and dealings between us and the Hong Kong Stock Exchange.

(d) in addition to the compliance advisor, we will retain a Hong Kong legal advisor to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the Listing.

WAIVER FROM HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

Pursuant to Rule 4.10 of the Listing Rules, the financial information to be disclosed in our Accountant's Report must be in accordance with best practice, which is at least that is required to be disclosed in respect of specific matters in the accounts of a company under the Hong Kong Companies Ordinance, IFRS, PRC GAAP and the Banking (Disclosure) Rules.

Due to the reasons described below, we are currently unable to fully satisfy the disclosures required by the Banking (Disclosure) Rules. We believe that, the financial disclosures which we are currently unable to satisfy do not have material impact on potential investors.

Our Position in relation to Disclosures under the Banking (Disclosure) Rules

Banking (Disclosure) Rules Item	Description	Bank's Position in relation to the Specified Disclosure	Bank's Proposal for Disclosure	Expected Timing for Full Compliance
Value of collateral in respect of loans and advances	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 37(2)(c)** the value of collateral which has been taken into account in respect of such impaired loans and advances to which the specific provisions relate.	Our Bank retains the value of collateral at the time of the grant of loans, and revisits the change in the value of collateral periodically. Our Bank generally requires reappraisal of collateral by our internal or third-party appraisers on a regular basis and has formulated policies on the reappraisal interval for various types of appraisal. If there is any significant decrease in the market price of the collateral, there will be alert of the credit risk and our Bank will require borrower to provide additional collateral or guarantee to mitigate risks arising from insufficient collateral. Our Bank requires our client managers to conduct collateral reappraisal as part of the daily loan management at the specified interval and make qualitative or quantitative analysis of the collateral value. As our Bank currently only analyzes and records the results of collateral reappraisal of the	For periodical revisit of the change of the value and the status of the value of the collaterals, please refer to "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans" and "Risk Management — Credit Risk Management — Credit Risk Management for Personal Loans."	Our Bank plans to further improve our collateral management system and formulate relevant specifications for standardized record which enables our Bank to keep standardized electronic records of collateral information to comply with the relevant disclosure requirements for the year ending December 31, 2018 and going forward.
Fair value of collaterals held in respect of overdue retail loans to customers	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 48(3)(a)** a description of any collateral held in respect of the overdue loans and advances and any other forms of credit risk mitigation and, unless impracticable, an estimate of the fair value of such collateral or such other forms of credit risk mitigation.			

Banking (Disclosure) Rules Item	Description	Bank's Position in relation to the Specified Disclosure	Bank's Proposal for Disclosure	Expected Timing for Full Compliance
		loan in each loan management report, and has not yet established a collateral management system which can record and process standardized data for collateral, our Bank is unable to collect the relevant data from a large number of hard copies of reports to compile information for disclosure.		

Banking (Disclosure) Rules Item	Description	Bank's Position in relation to the Specified Disclosure	Bank's Proposal for Disclosure	Expected Timing for Full Compliance
Capital structure and adequacy	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 45** its capital structure and adequacy.	As a PRC financial institution supervised by the CBRC, our Bank maintains and compiles data on capital management and liquidity management in accordance with the requirements of the CBRC, which attempt to address similar disclosure requirements of the Banking (Disclosure) Rules. Although the two regimes are slightly different, if our Bank were to attempt to comply with such items under the Banking (Disclosure) Rules in parallel with the CBRC regulations, our Bank might have to carry out unnecessary additional work to prepare duplicate information for the purposes of the requirements of the Banking (Disclosure) Rules.	Our Bank can provide relevant capital structure and adequacy in accordance with the CBRC's requirements, which address similar disclosure requirements of the Banking (Disclosure) Rules.	Not applicable
Current assets	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 51** its liquidity coverage ratio or liquidity maintenance ratio (as the case may be), and information of its approach to liquidity risk management that is necessary and relevant for understanding its liquidity risk position and liquidity management.			

Banking (Disclosure) Rules Item	Description	Bank's Position in relation to the Specified Disclosure	Bank's Proposal for Disclosure	Expected Timing for Full Compliance
Sector Information	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 47** sector information.	Our Bank maintains a breakdown of loans and advances to customers by sector as set out in the Classification and Codes of National Economic Industries in our loans system for the purpose of filing a return to 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 sector based on the classification system as prescribed by the CBRC. For example, loans are categorized into corporate loans and personal loans which are further classified into detailed sub-categories by sector/nature. Our Bank has disclosed the loans and advances to customers by sectors in accordance with our management reports based on the CBRC classification in Note 44.3(5)(C) to the Accountant's Report as set out in Appendix I to this prospectus. Our Bank considers that the current disclosure is sufficient to satisfy HKMA's disclosure requirements.	Not applicable

Banking (Disclosure) Rules Item	Description	Bank's Position in relation to the Specified Disclosure	Bank's Proposal for Disclosure	Expected Timing for Full Compliance
Non-HK$ currency exposures	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 50(6)** its non-HK$ currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HK$ currency positions it submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period.	Our Bank's accounts are settled in RMB, which means that our Bank only discloses non-RMB currency exposures instead of non-HK$ currency exposures.	Not applicable	Not applicable
Additional annual disclosure using STC approach	**Banking (Disclosure) Rules** An authorized institution shall disclose — **Section 53-64** additional annual disclosure to be made by an authorized institution using STC approach to calculate its credit risk for non-securitization exposures.	The computation basis for risks adopted by our Bank 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 CBRC's disclosure requirements. Our Bank believes that such requirements attempt to address similar disclosures of the Banking (Disclosure) Rules.	Not applicable

As a financial institution incorporated and based in the PRC, we are required to comply with requirements promulgated by the CBRC and the PBOC.

Certain provisions in the Banking (Disclosure) Rules require disclosure in respect of our capital structure, capital adequacy and liquidity ratios. We have maintained and compiled data in such respects in accordance with the similar regulatory requirements of the CBRC and the PBOC. We believe that the CBRC and the PBOC requirements attempt to address similar disclosure considerations to the requirements of the Banking (Disclosure) Rules and the differences between the above disclosure requirements under the two regulatory regimes are minimal and immaterial. It will be unduly burdensome for us to attempt to comply with such items under the Banking (Disclosure) Rules in parallel with the CBRC and the PBOC regulations as we would be required, in our view, to carry out unnecessary additional work to compile similar information already required and maintained in accordance with the CBRC and the PBOC regulations. As a result, we propose to disclose information which complies 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. We are of the view that this prospectus will contain sufficient information for investors to make a fully informed investment decision notwithstanding the differences between the CBRC and the PBOC requirements on the one hand, and the requirements of the Banking (Disclosure) Rules on the other. The Joint Sponsors concur with the view of our Bank based on the reasoning set out above.

Based on the above, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 4.10 of the Listing Rules on the condition that as soon as we obtain the relevant information, we must comply with the requirements under Rule 4.10 of the Listing Rules.

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his/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.

Note 1 to Rule 3.28 of the Listing Rules sets out the academic and professional qualifications considered to be acceptable by the Hong Kong Stock Exchange:

(a) a Member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Note 2 to Rule 3.28 of the Listing Rules sets out the factors that the Hong Kong Stock Exchange considers when assessing an individual's "relevant experience":

(a) length of employment with the issuer and other issuers and the roles he/she played;

(b) familiarity with the Listing Rules and other relevant laws and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and The Codes on Takeovers and Mergers and Share Buy-backs;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

We have appointed Mr. Xu Xueming as one of our joint company secretaries. Mr. Xu is currently our vice president and secretary to the Board. See "Directors, Supervisors and Senior Management" for further biographical details of Mr. Xu. We have appointed him as one of our joint company secretaries due to his past management experience within our Bank and his thorough understanding of the internal administration, business operations and corporate culture of our Bank.

As Mr. Xu does not possess the qualifications set out in Rule 3.28 of the Listing Rules, we have also appointed Mr. Ngai Wai Fung, who complies with the requirements stipulated under Rule 3.28 of the Listing Rules, as one of our joint company secretaries to assist Mr. Xu in discharging the duties of a company secretary for an initial period of three years from the Listing Date to enable Mr. Xu to acquire the "relevant experience" (Note 2 to Rule 3.28 of the Listing Rules). See "Directors, Supervisors and Senior Management" for further biographical details of Mr. Ngai which satisfy the requirements under Note 1(b) to Rule 3.28 of the Listing Rules. The term of the appointment of Mr. Xu and Mr. Ngai as the joint company secretaries is three years commencing from the Listing Date.

The following arrangements have been, or will be, put in place to assist Mr. Xu in acquiring the qualifications and experience as the company secretary of our Bank required under Rule 3.28 of the Listing Rules:

(a) Mr. Ngai will assist Mr. Xu, in enabling Mr. Xu to acquire the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. He will also assist Mr. Xu in organizing Board meetings and Shareholders' meetings of our Bank, as well as other matters of our Bank which are incidental to the duties of a company secretary. Mr. Ngai is expected to work closely with Mr. Xu, and will maintain regular contact with Mr. Xu and the Directors and senior management of our Bank;

(b) Mr. Xu will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organized by our Bank's Hong Kong legal advisors and seminars organized by the Hong Kong Stock Exchange for PRC issuers from time to time, in addition to satisfying the minimum requirement under Rule 3.29 of the Listing Rules. Furthermore, both Mr. Xu and Mr. Ngai will seek and have access to advice from our Bank's Hong Kong legal and other professional advisors as and when required;

(c) we have appointed a compliance advisor pursuant to Rule 3A.19 of the Listing Rules, which will provide professional guidance and advice to us and our joint company secretaries, as to compliance with the Listing Rules and all other applicable laws and regulations; and

(d) upon expiry of the initial three-year period, the qualifications and experience of Mr. Xu will be re-evaluated. Mr. Xu is expected to demonstrate to the Hong Kong Stock Exchange's satisfaction that he, having had the benefit of Mr. Ngai's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Upon the expiry of the initial three-year period, the qualifications of Mr. Xu will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain connected transactions with China Post Group, which will constitute continuing connected transactions under the Listing Rules upon the Listing. We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver pursuant to Rule 14A.105 of the Listing Rules to exempt certain transactions under the Comprehensive Services Framework Agreement dated September 6, 2016 and the transactions under the Land Use Rights and Properties Leasing Framework Agreement dated September 2, 2016, and the Agency Banking Businesses Framework Agreement dated September 7, 2016, from compliance with the announcement requirement and (if applicable) independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and to exempt the transactions under the Agency Banking Businesses Framework Agreement dated September 7, 2016 from compliance with setting a term of not exceeding three years and monetary caps. See "Connected Transactions."

WAIVER IN RESPECT OF PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) of the Listing Rules requires that there shall be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer's listed securities shall be maintained. This normally means that at least 25% of the issuer's total issued share capital must at all times be held by the public. Pursuant to Rule 8.08(1)(d) of the Listing Rules, the Hong Kong Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK$10 billion.

Based on the minimum Offer Price HK$4.68 and assuming no exercise of the Over-allotment Option, we expected that our market capitalization will be no less than approximately HK$377.7 billion. We have applied to the Hong Kong Stock Exchange to request the Hong Kong Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules. Therefore, our minimum public float shall be the highest of (1) 15% of the Bank's total issued share capital; (2) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); and (3) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (as increased by the H Shares to be issued upon any exercise of the Over-allotment Option) provided that the highest of (1), (2) and (3) above is below the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules.

In order to support the application of this waiver, we have confirmed to the Hong Kong Stock Exchange that:

(a) we will have an expected market capitalization at the time of Listing of over HK$10 billion;

(b) the quantity and scale of the issued securities would enable the market to operate properly with a lower percentage of public float;

(c) we will make appropriate disclosure of the lower percentage of public float required by the Hong Kong Stock Exchange in the prospectus; and

(d) we will confirm sufficiency of public float in our successive annual reports after the Listing.

Rule 8.08(3) of the Listing Rules provides that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders, save where: (a) the securities to be listed are options, warrants or similar rights to subscribe or purchase shares; (b) such securities are offered to existing holders of a listed issuer's shares by way of bonus issue; and (c) in the 5 years preceding the date of the announcement on the proposed bonus issue, there are no circumstances to indicate that the shares of the issuer may be concentrated in the hands of a few shareholders.

We initially offer 12,106,588,000 H Shares under the Global Offering, representing approximately 15% of our enlarged issued share capital immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Together with 1,144,853,000 H Shares to be converted from state-owned Domestic Shares and to be transferred to NSSF and 6,254,480,000 H Shares to be converted from unlisted Foreign Shares held by certain Strategic Investors, approximately 23.67% of our enlarged issued share capital would be held in public hands as permitted under the waiver in respect of public float requirements under Rule 8.08(1) of the Listing Rules. On this basis, the maximum aggregate shareholding of the three largest public shareholders shall not exceed 11.84% of our enlarged issued share capital, being 50% of the H Shares to be held in public hands.

Based on the level of interests indicated by Cornerstone Investors and the proposed size of the Global Offering under the current market conditions, we expect the aggregate shareholding of the three largest public shareholders will range from approximately 12.63% to 13.38% of our enlarged issued share capital immediately after the completion of the Global Offering, representing approximately 53.36% to 56.52% of our H Shares to be held in public hands immediately after the completion of the Global Offering (based on the low end of the Offer Price and assuming that the Over-allotment Option is not exercised), comprising:

- (i) UBS, holding approximately 4.24% of our enlarged issued share capital, or (ii) UBS and its close associates, holding up to approximately 4.99% of our enlarged issued share capital subject to the granting of the written consent of the Stock Exchange in respect of, among other things, placing to existing shareholders or their close associates (the "UBS Consent"), the maximum increase in the shareholding of UBS and its close associates in our enlarged issued share capital being 0.75% (the "UBS Additional Shares");

- CSIC Investment One Limited holding approximately 4.24% of our enlarged issued share capital; and

- Shanghai International Port Group (HK) Co., Limited holding approximately 4.15% of our enlarged issued share capital.

Rule 8.08 aims to ensure an open market in the securities to be listed on the Stock Exchange. We believe that in light of the huge size of the Global Offering, as well as the number and the corresponding board lots and market capitalization of H Shares in public hands excluding the shareholding of the three largest public shareholders and other H Shares subject to lock-up as demonstrated in the table below, there will be sufficient H Shares (in terms of board lots) for a broad distribution to the public in Hong Kong as well as professional and institutional investors in and outside Hong Kong which ensures a diverse investor base, and will further contribute to an active and liquid aftermarket in the trading of the H Shares subject to market conditions and other external factors.

Based on low end of the Offer Price, (i) number of H Shares and the respective number of board lots, (ii) market capitalization of such number of H Shares, and (iii) approximate % of the enlarged issued share capital at the time of Listing

H Shares in public hands [1]	**H Shares in public hands (excluding the three largest public shareholders)**		**H Shares in public hands not subject to any lock-up**	
(i) 19,107 million Shares (19.11 million board lots) (ii) HK$89.42 billion (iii) 23.67%	**Assuming no UBS Consent is granted**	(i) 8,911 million Shares (8.91 million board lots) (ii) HK$41.70 billion (iii) 11.04%	**Assuming the UBS Additional Shares are not subject to lock-up** [2]	(i) 3,915 million Shares (3.91 million board lots) (ii) HK$18.32 billion (iii) 4.85%
	Assuming UBS Consent will be granted	(i) 8,307 million Shares (8.31 million board lots) (ii) HK$38.88 billion (iii) 10.29%	**Assuming the UBS Additional Shares are subject to lock-up** [3]	(i) 3,311 million Shares (3.31 million board lots) (ii) HK$15.49 billion (iii) 4.10%

(1) Number of H Shares in public hands at the time of Listing = 12,106,588,000 H Shares initially offered under the Global Offering + 1,144,853,000 H Shares to be converted from state-owned Domestic Shares and to be transferred to NSSF + 6,254,480,000 H Shares to be converted from unlisted Foreign Shares held by certain Strategic Investors - the 398,460,000 H Shares held by DBS Bank (who is regarded as our core connected person as further disclosed in "Our Strategic Investors").

(2) Number of H Shares in public hands not subject to any lock-up at the time of Listing (based on low end of the Offer Price), assuming the UBS Additional Shares are not subject to lock-up = 19,505,921,000 H Shares at the time of Listing - 9,336,463,000 H Shares held by Cornerstone Investors - 6,254,480,000 Shares held by certain Strategic Investors to be converted to H Shares at the time of Listing.

(3) Number of H Shares in public hands not subject to any lock-up at the time of Listing (based on low end of the Offer Price), assuming the UBS Additional Shares are subject to lock-up = 19,505,921,000 H Shares at the time of Listing - 9,336,463,000 H Shares held by Cornerstone Investors - 6,254,480,000 Shares held by certain Strategic Investors to be converted to H Shares at the time of Listing - 604,118,000 UBS Additional Shares.

Based on the above, we have applied to the Hong Kong Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the 50% threshold applicable to shareholding of three largest public shareholders under Rule 8.08(3) of the Listing Rules allowing the three largest public shareholders to hold: (i) no more than 53.36% of the H Shares in public hands at the time of Listing (assuming no UBS Consent is granted); or (ii) no more than 56.52% of the H Shares in public hands at the time of Listing (assuming UBS Consent will be granted). The grant of the waiver would reduce the total H Shares in public hands (excluding the three largest public shareholders) from 11.84% of the enlarged issued share capital immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), to 11.04% (assuming no UBS Consent is granted) or 10.29% (assuming UBS Consent will be granted).

Please also refer to sections headed "Our Strategic Investors," "Cornerstone Investors" and "Substantial Shareholders" for further information of our three largest public shareholders.

We further undertake to disclose the following information in the allotment results announcement: (1) whether any UBS Additional Shares will be issued and if so, (i) the total number of UBS Additional Shares and its percentage in our enlarged share capital at the time of listing; (ii) the number of UBS Additional Shares which are subject to lock-up and its percentage in our enlarged share capital at the time of listing; (2) the total number of H Shares held by UBS and its percentage of our enlarged share capital at the time of listing; (3) the total number of H Shares held by the three largest public shareholders and its percentage of the H Shares in public hands at the time of listing; and (4) the total number of H Shares in public hands which are not subject to any lock up and its percentage of our enlarged share capital at the time of listing.

WAIVER IN RESPECT OF CLAWBACK MECHANISM

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 Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, provided the initial allocation of H Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering, in the event of over-subscription, the Joint Representatives, after consultation with us, shall apply a clawback mechanism following the closing of the application lists on the following basis:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of the 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 907,996,000 H Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering;

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the 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 the Offer Shares available under the Hong Kong Public Offering will be 1,210,660,000 H Shares, representing approximately 10.0% of the Offer Shares initially available under the Global Offering; and

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the 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 the Offer Shares available under the Hong Kong Public Offering will be 2,421,318,000 H Shares, representing approximately 20.0% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

See "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation."

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Name of Director	Address	Nationality
Mr. Li Guohua (李國華)	Yard No. 5, Guangqumenwai Avenue Chaoyang District Beijing PRC	Chinese
Mr. Lyu Jiajin (呂家進)	No. 8A, Beilishi Road Xicheng District Beijing PRC	Chinese
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Mr. Yang Songtang (楊松堂)	No. 708, Building No. 32 Dinghui Dongli Haidian District Beijing PRC	Chinese
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See "Directors, Supervisors and Senior Management" for more information on our Directors and Supervisors.

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First Capital Securities Limited
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Central
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Sun Hung Kai Investment Services Limited
42/F, Lee Garden One
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Causeway Bay
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Essence International Securities (Hong Kong) Limited
39/F, One Exchange Square
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China Galaxy International Securities (Hong Kong) Co., Ltd
Units 3501-7 & 3513-14, 35/F, Cosco Tower, Grand Millennium Plaza
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China Securities (International) Corporate Finance Company Limited
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Nomura International (Hong Kong) Limited
30/F, Two International Finance Centre
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Sole Financial Advisor	**UBS AG Hong Kong Branch** 52/F, Two International Finance Centre 8 Finance Street Central Hong Kong
Legal Advisors to our Company	*As to Hong Kong and United States law* **Davis Polk & Wardwell** 18th Floor, The Hong Kong Club Building 3A Chater Road Hong Kong *As to PRC law* **Haiwen & Partners** 20/F, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing PRC
Legal Advisors to the Joint Sponsors and the Underwriters	*As to Hong Kong and United States law* **Clifford Chance** 27th Floor, Jardine House One Connaught Place Central Hong Kong *As to PRC law* **King & Wood Mallesons** 40th Floor, Tower A, Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang District Beijing PRC

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Compliance Advisor	**China International Capital Corporation Hong Kong Securities Limited** 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
Property Valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 6/F, Three Pacific Place 1 Queen's Road East Admiralty Hong Kong
Receiving Banks	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong
	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong
	DBS Bank (Hong Kong) Limited 16/F The Center 99 Queen's Road Central Central Hong Kong

Registered Office	No. 3 Financial Street Xicheng District Beijing PRC
Headquarters in the PRC	No. 3 Financial Street Xicheng District Beijing PRC
Principal place of business in Hong Kong	18/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Company's Website	www.psbc.com (This website and the information contained on this website do not form part of this prospectus)
Joint Company Secretaries	Mr. Xu Xueming Mr. Ngai Wai Fung *(FCIS, FCS(PE), CPA, FCCA)*
Authorized Representatives	Ms. Yao Hong Mr. Xu Xueming
Strategic Planning Committee	Mr. Li Guohua (*Chairman*) Mr. Lyu Jiajin Mr. Zhang Xuewen Ms. Yao Hong Mr. Ma Weihua Mr. Yang Songtang
Related Party Transactions Control Committee	Mr. Ma Weihua (*Chairman*) Mr. Zhang Xuewen Ms. Yao Hong Ms. Bi Zhonghua Mr. Fu Tingmei
Audit Committee	Ms. Bi Zhonghua (*Chairwoman*) Mr. Ma Weihua Mr. Gan Peizhong Mr. Lai Weiwen Mr. Chin Hung I David

Risk Management Committee	Mr. Yang Songtang (*Chairman*) Mr. Lyu Jiajin Mr. Gan Peizhong Mr. Tang Jian Mr. Lai Weiwen
Nomination and Remuneration Committee	Mr. Gan Peizhong (*Chairman*) Mr. Lyu Jiajin Mr. Zhang Xuewen Ms. Bi Zhonghua Mr. Fu Tingmei
Social Responsibility Committee	Mr. Lyu Jiajin (*Chairman*) Ms. Yao Hong Ms. Bi Zhonghua Mr. Tang Jian Mr. Chin Hung I David
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

This section contains data and statistics relating to the industry in which we operate, including historical market information to the extent available in the official or publicly available sources. We have extracted 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 the 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 Joint Representatives, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon. As of the Latest Practicable Date, our Directors confirm that, after taking reasonable care, there has been no material adverse change in the market information presented in this section.

OVERVIEW OF CHINA'S ECONOMY

Over 30 years since the reform and opening up, China has been one of the world's fastest growing economies and has become the second largest economy in the world since 2010. According to the NBS, China's nominal GDP increased at a CAGR of 10.6% from RMB40.9 trillion in 2010 to RMB67.7 trillion in 2015. Meanwhile, China's GDP per capita also grew steadily at a CAGR of 10.1% from RMB30,567 in 2010 to RMB49,351 in 2015. China's sustained economic growth has driven the growth in personal income, resulting in an increase in the per capita disposable income of national residents at a CAGR of 16.9% from RMB10,046 in 2010 to RMB21,966 in 2015. The following table sets forth the data for the periods indicated.

	For the year ended December 31,						CAGR
	2010	2011	2012	2013	2014	2015	(2010-2015)
Nominal GDP (in billions of RMB)	40,890	48,412	53,412	58,802	63,591	67,671	10.6%
Real GDP growth rate	10.6%	9.5%	7.7%	7.7%	7.3%	6.9%	N/A
GDP per capita (in RMB)	30,567	36,018	39,544	43,320	46,612	49,351	10.1%
Per capita disposable income of national residents (in RMB)	10,046	14,551	16,510	18,311	20,167	21,966	16.9%

Source: NBS, National Economic and Social Development Statistics Bulletin

In the context of China's economic transformation, rising consumer demand and new urbanization have become the growth engines for China's economic development, creating a new profit model and profit drivers for China's banking industry. Firstly, economic structure continues to transform into a consumption-driven one, and consumer demand strongly supports the steady growth of China's economy. According to the NBS, contribution of consumption to China's GDP growth was 48.2%, 51.6% and 66.4% in 2013, 2014 and 2015, respectively. Secondly, the new urbanization with Chinese characteristics is pivotal to China's economic growth in the future. China's urbanization rate was 53.7%, 54.8% and 56.1% in 2013, 2014 and 2015, respectively. The banking industry will play an increasingly important role in supporting the new urbanization of County Areas and will also benefit from growth opportunities emerging from the economic development in the County Areas.

OVERVIEW OF CHINA'S BANKING INDUSTRY

China's banking industry has grown rapidly in the past decade, primarily driven by the rapid development of China's economy. From 2010 to 2015, total RMB-denominated loans and deposits of China's financial institutions grew at a CAGR of 14.4% and 13.6%, respectively, and total RMB-denominated loans grew from RMB47.9 trillion as of December 31, 2010 to RMB94.0 trillion as of December 31, 2015, while total RMB-denominated deposits grew from RMB71.8 trillion as of December 31, 2010 to RMB135.7 trillion as of December 31, 2015. The following table sets forth total RMB and foreign currency-denominated loans and deposits of China's financial institutions as of the dates indicated.

	As of December 31,						CAGR
	2010	2011	2012	2013	2014	2015	(2010-2015)
Total RMB-denominated loans (in billions of RMB)	47,920	54,795	62,991	71,896	81,677	93,954	14.4%
Total RMB-denominated deposits (in billions of RMB)	71,824	80,937	91,755	104,385	113,864	135,702	13.6%
Total foreign currency-denominated loans (in billions of US$)	453	539	684	777	835	830	12.9%
Total foreign currency-denominated deposits (in billions of US$)	229	275	406	439	573	627	22.3%

Source: PBOC

In line with rising national income levels, personal deposits have achieved rapid growth and have been the most important source of funding for China's banking industry. From 2010 to 2015, the CAGR of domestic personal RMB-denominated time deposits and demand deposits was 13.3% and 10.3%, respectively. The following table sets forth data of domestic personal RMB-denominated time deposits and demand deposits as of the dates indicated.

	As of December 31,						CAGR
	2010	2011	2012	2013	2014	2015	(2010-2015)
Personal RMB-denominated time deposits (in billions of RMB)	18,404	21,047	24,792	28,332	31,980	34,321	13.3%
Personal RMB-denominated demand deposits (in billions of RMB)	12,434	13,758	15,827	17,805	18,271	20,287	10.3%

Source: PBOC

In addition to the traditional corporate loan business, personal loan business and fee- and commission-based products and services of China's banking industry have achieved significant growth in recent years. On one hand, RMB-denominated personal loans grew at a CAGR of 19.1% from 2010 to 2015, according to the CBRC. On the other hand, the proportion of non-interest income of PRC commercial banks grew from 17.5% in 2010 to 23.7% in 2015, according to the CBRC. China's sustained economic growth and rising national income levels are expected to further increase the demand for personal banking products and services, demonstrating the growth potential of China's banking industry.

As of December 31, 2015, total assets of China's banking institutions amounted to RMB199.3 trillion, representing a year-on-year growth of 15.7%. In 2015, PRC commercial banks realized an aggregate net profit of RMB1.6 trillion, representing a year-on-year growth of 2.4%. In 2015, PRC commercial banks had an average return on assets of 1.10%, representing a year-on-year decrease of 0.13 percentage points, and an average return on equity of 14.98%, representing a year-on-year decrease of 2.61 percentage points. As of December 31, 2015, the balance of NPLs for PRC commercial banks amounted to RMB1.3 trillion, the NPL ratio was 1.67% and the allowance coverage ratio was 181.18%.

HISTORY AND DEVELOPMENT

From 1949 through the 1970s, China's banking industry functioned as part of a centrally planned economy. The PBOC not only served as China's central bank but also operated commercial banking businesses such as deposit-taking, lending and settlement. Since the late 1970s, as China's economic reforms proceeded, the banking industry has undergone significant changes. Several of the PBOC's commercial banking functions were separated from the PBOC's central bank functions and the State Council officially designated the PBOC as China's central bank and principal regulator of China's banking industry. The Big Four were designated as specialized banks for agrarian financing, foreign exchange and trade finance, construction and infrastructure financing and urban commercial financing, respectively. Initially, the Big Four were subject to policy restrictions and only achieved limited autonomy of operations. However, as China's economic reforms progressed, the State Council relaxed such restrictions on the scope of operation for the Big Four so that they were no longer limited to the original specialized functions.

In the mid-1980s, a number of new commercial banks and non-bank financial institutions were established. Some of them were permitted to engage in commercial banking businesses nationwide, while others were permitted to operate only in local markets. However, during this period, China's banking system continued to be tightly controlled by the government's development plans and policies, and banks had not achieved autonomous and commercial operations.

In the mid-1990s, the PRC government accelerated its financial reforms and began to encourage the Big Four to operate on a more commercial basis. In 1994, the PRC government established three policy banks, including China Development Bank, The Export-Import Bank of China and Agricultural Development Bank of China, to assume most of the policy lending functions of the Big Four. Accordingly, the Big Four started to transform into commercial banks. In 1995, the PRC Commercial Banking Law and the PRC PBOC Law were enacted, which further defined the business scope for commercial banks and the functions and powers of the PBOC as the central bank and banking industry regulator. In 2003, the CBRC was established as the primary banking industry regulator and assumed most of the regulatory functions of the PBOC.

China's banking industry historically was characterized by substantial NPLs. Since the late 1990s, the PRC government has taken numerous initiatives to improve the asset quality and strengthen the capital base of PRC commercial banks, including the issue of special government bonds, acquisition of NPLs and capital injection. As a result of the rapid growth of China's economy and the implementation of the above-mentioned measures, the asset quality of China's Large Commercial Banks has improved significantly, which lays the foundation for future growth of China's banking industry. Furthermore, after the disposal of NPLs and capital injection from Huijin, Bank of Communications, China Construction Bank, Bank of China, Industrial and Commercial Bank of China and Agricultural Bank of China listed their shares on Shanghai Stock Exchange and Hong Kong Stock Exchange.

Meanwhile, many nationwide joint-stock commercial banks and city commercial banks have also improved their operations and management by using their own resources and adopting international standards and practices, and listed their shares on domestic or overseas stock exchanges.

COMPETITIVE LANDSCAPE IN CHINA'S BANKING INDUSTRY

Overall Competitive Landscape

Currently, China's banking industry consists of Large Commercial Banks, nationwide joint-stock commercial banks, city commercial banks, rural financial institutions, foreign banking institutions and other banking institutions. Large Commercial Banks continue to play a dominant role in China's banking system and have advantages in market share and number of outlets. Nationwide joint-stock commercial banks are also becoming increasingly important with a continued increase in their market share. In addition, city commercial banks operate a variety of commercial banking businesses within the permitted scope and have demonstrated regional advantages. Private capital has started investing heavily in the banking industry. Meanwhile, the scope of foreign banks' Renminbi businesses has been further opened up.

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

	As of or for the year ended December 31, 2015						
	Number of legal entity institutions	Total assets		Total shareholders' equity		Net profit	
		Total amount	Market share (%)	Total amount	Market share (%)	Total amount	Market share (%)
	(in billions of RMB, except the number of institutions and percentages)						
Large Commercial Banks[1]	6	85,459.1	42.9%	6,393.5	42.0%	927.5	47.0%
Nationwide joint-stock commercial banks	12	36,988.0	18.6	2,321.2	15.3	337.3	17.1
City commercial banks	133	22,680.2	11.4	1,548.1	10.2	199.4	10.1
Rural financial institutions[2]	2,303	24,650.8	12.4	1,783.2	11.7	223.4	11.3
Foreign banking institutions	40	2,680.8	1.3	351.1	2.3	15.3	0.8
Other banking institutions[3]	1,767	26,886.5	13.5	2,808.2	18.5	270.9	13.7
Total	**4,261**	**199,345.4**	**100.0%**	**15,205.3**	**100.0%**	**1,973.8**	**100.0%**

Source: CBRC Annual Report 2015. In this prospectus, we are included in the category of Large Commercial Banks as we consider ourselves comparable with other Large Commercial Banks in terms of business scale, while we are included in the category of "other banking institutions" in CBRC Annual Reports.

(1) Consisting of Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications and our Bank.

(2) Consisting of rural credit cooperatives, rural commercial banks and rural cooperative banks.

(3) Consisting of policy banks, emerging rural financial institutions (including village and township banks, loan companies and rural mutual cooperatives), privately owned banks, financial asset management companies, Sino-German Bausparkasse, trust companies, finance companies of corporate groups, financial leasing companies, money brokerage firms, auto financing companies and consumer finance companies.

Large Commercial Banks

We, together with Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China and Bank of Communications, hold an important position in China's banking system, and have established significant competitive advantages in terms of total assets, funding source and the number of establishments. As of and for the year ended December 31, 2015, Large Commercial Banks together accounted for 42.9% of the total assets, 42.0% of the total shareholders' equity and 47.0% of the total net profit of all banking institutions in China.

The following table sets forth the number of establishments of the Large Commercial Banks as of December 31, 2015.

	As of December 31, 2015
Postal Savings Bank of China[1]	40,353
Agricultural Bank of China	23,682
Industrial and Commercial Bank of China	17,498
China Construction Bank	14,945
Bank of China	11,633
Bank of Communications.	3,449
Total	**111,560**

Source: 2015 annual reports of the Large Commercial Banks, except for our information

(1) Includes head office, branches and sub-branches and agency outlets.

The following table sets forth the total assets, total loans and total deposits of the Large Commercial Banks as of March 31, 2016.

	As of March 31, 2016		
	Total assets	Total loans [1]	Total deposits
	(in billions of RMB)		
Industrial and Commercial Bank of China	22,883.3	12,345.7	17,038.1
China Construction Bank	19,143.8	10,827.8	14,582.2
Agricultural Bank of China	18,413.5	9,261.1	14,389.8
Bank of China	17,040.0	9,474.7	12,234.7
Postal Savings Bank of China	7,707.6	2,665.8	6,732.4
Bank of Communications	7,404.4	3,889.7	4,638.6
Total	**92,592.6**	**48,464.8**	**69,615.8**

Source: 2016 first quarter reports of the Large Commercial Banks, except for our information

(1) As of March 31, 2016, China Merchants Bank had total loans of RMB2,932.8 billion, ranking sixth among PRC commercial banks.

Nationwide Joint-stock Commercial Banks

Nationwide joint-stock commercial banks play an important role in China's banking industry. As of December 31, 2015, there were 12 nationwide joint-stock commercial banks with licenses to engage in nationwide commercial banking activities in China, including China Merchants Bank, China CITIC Bank, Hua Xia Bank, China Everbright Bank, Shanghai Pudong Development Bank, China Minsheng Bank, Industrial Bank, China Guangfa Bank, Ping An Bank, China Zheshang Bank, China Bohai Bank and Hengfeng Bank. As of and for the year ended December 31, 2015, nationwide joint-stock commercial banks together accounted for 18.6% of the total assets, 15.3% of the total shareholders' equity and 17.1% of the total net profit of all banking institutions in China.

City Commercial Banks

City commercial banks are generally permitted to engage in commercial banking activities within their respective designated geographical areas. Some of the city commercial banks have established branches in other cities. As regional financial institutions, city commercial banks are also important components of China's banking industry. As of December 31, 2015, there were 133 city commercial banks in China. As of and for the year ended December 31, 2015, city commercial banks together accounted for 11.4% of the total assets, 10.2% of the total shareholders' equity and 10.1% of the total net profit of all banking institutions in China.

Rural Financial Institutions

Rural financial institutions include rural credit cooperatives, rural commercial banks and rural cooperative banks. Compared with Large Commercial Banks and nationwide joint-stock commercial banks, they mainly provide limited banking products and services to enterprises and residents in the County Areas, including personal deposits, loans and settlement services. As of December 31, 2015, there were 2,303 rural financial institutions in China. As of and for the year ended December 31, 2015, rural financial institutions together accounted for 12.4% of the total assets, 11.7% of the total shareholders' equity and 11.3% of the total net profit of all banking institutions in China.

Foreign Banking Institutions

Foreign banking institutions include representative offices and branches and sub-branches of foreign-owned and joint-venture banks and locally-incorporated subsidiaries of foreign banks. As of December 31, 2015, there were 40 legal entities of foreign banks incorporated in China. As of and for the year ended December 31, 2015, foreign banking institutions together accounted for 1.3% of the total assets, 2.3% of the total shareholders' equity and 0.8% of the total net profit of all banking institutions in China.

Other Banking Institutions

Other banking institutions include policy banks, emerging rural financial institutions (including village and township banks, loan companies and rural mutual cooperatives), privately owned banks, financial asset management companies, Sino-German Bausparkasse, trust companies, finance companies of corporate groups, financial leasing companies, money brokerage firms, auto financing companies and consumer finance companies. As of and for the year ended December 31, 2015, these banking institutions together accounted for 13.5% of the total assets, 18.5% of the total shareholders' equity and 13.7% of the total net profit of all banking institutions in China.

INDUSTRY TRENDS

Enhanced Industry Fundamentals

Since 2003, the conversion of state-owned commercial banks into joint stock companies has had a profound effect on the reform and development of China's banking industry. Since then, China's banking industry has witnessed significant improvements in corporate governance, risk management, capital strength and profitability. From 2010 to 2015, according to the CBRC, the total assets of all banking institutions in China increased by RMB104.0 trillion, representing a CAGR of 15.9%, while shareholders' equity of all banking institutions in China increased by RMB9.4 trillion, representing a CAGR of 21.1%.

The following table sets forth the scale and profitability of all banking institutions in China as of the dates and for the periods indicated.

	As of or for the year ended December 31,						CAGR
	2010	2011	2012	2013	2014	2015	(2010-2015)
	(in billions of RMB, except percentages)						
Total assets	95,305.3	113,287.3	133,622.4	151,354.7	172,335.5	199,345.4	15.9%
Shareholders' equity	5,832.2	7,209.4	8,670.8	10,171.6	12,313.2	15,205.3	21.1%
Total loans	50,922.6	58,189.3	67,287.5	76,632.7	86,786.8	99,346.0	14.3%
Total deposits	73,338.2	82,670.1	94,310.2	107,058.8	117,373.5	139,775.2	13.8%
Profit after tax	899.1	1,251.9	1,511.6	1,744.5	1,927.7	1,973.8	17.0%

Source: CBRC Annual Report 2015

Increasingly Improved Regulatory System in the Industry

In recent years, the PBOC and the CBRC have promulgated a series of regulations in an effort to enhance the regulation and supervision of China's banking industry and promote orderly market competition. These regulations are related to, among other things, improving corporate governance, enhancing risk management, strengthening supervision over capital adequacy, establishing a general provision requirement for risk-bearing assets, promulgating internal control guidelines and enhancing supervision over information disclosure.

Meanwhile, as the reform of China's banking industry has accelerated, the progress of interest rate liberalization has also gained momentum in recent years. Effective June 8, 2012, the PBOC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 110% of the PBOC benchmark rates. On July 20, 2013, the PBOC removed the minimum interest rate requirement for RMB-denominated loans (excluding interest rates on residential mortgage loans) and allowed financial institutions to set interest rates on loans based on commercial considerations. On November 22, 2014, the PBOC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 120% of PBOC benchmark rates, which was subsequently raised to 130% and then 150% of PBOC benchmark rates effective March 1, 2015 and May 11, 2015, respectively. Effective August 26, 2015, the PBOC removed the cap on interest rates on RMB-denominated time deposits with tenors over one year, while the cap on interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remained unchanged. Effective 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. The interest rate liberalization is nearing completion, which brings certain challenges to PRC commercial banks in respect of business operations, innovation capabilities, pricing abilities and risk management capabilities.

The above-mentioned steps, along with the implementation of the Regulations on Deposit Insurance effective May 1, 2015, will further drive liberalization of interest rates in China. The continuing interest rate liberalization may increase price competition in China's banking industry, while it is expected to encourage PRC commercial banks to develop more innovative products and services and to adopt risk-based pricing. Furthermore, interest rate liberalization will lead to business transformation of PRC commercial banks, especially in respect of fee- and commission-based products and services, such as investment banking, wealth management and alternative investment services.

In addition, China's regulatory authorities have gradually relaxed constraints on certain businesses, products and financing channels of commercial banks. For example, the regulatory authorities have relaxed limitations on asset securitization in recent years and allowed commercial banks to issue negotiable certificates of deposit on the interbank market. This provides opportunities for China's banking industry to develop new businesses and broaden financing channels.

Meanwhile, the regulatory authorities of China's banking industry have developed and further refined the prudential regulatory regimes and strengthened supervision over various aspects, including corporate governance, internal control, compliance and risk management. For instance, the regulatory authorities of China's banking industry have promulgated a number of regulations to, among others, strengthen regulation on capital adequacy of commercial banks according to the development of Basel Accords, reinforce strict and prudent requirements and supervision on, among others, wealth management products and interbank business, and enhance information technology risk management. The CBRC has also promulgated a series of regulatory requirements related to the real estate industry, over-capacity industries and local government financing vehicles, requiring PRC commercial banks to strengthen risk control over each of these types of businesses. For further information on regulation of China's banking industry, see "Supervision and Regulation."

Increasing Demand for Personal Banking Products and Services Driven by Accumulation of Social Wealth

With the rapid growth of China's economy, the disposable income of PRC residents has increased in the past three decades. According to the NBS, per capita disposable income of PRC urban residents increased from RMB19,109 in 2010 to RMB31,195 in 2015, at a CAGR of 10.3%; and per capita net income of rural residents increased from RMB5,919 in 2010 to RMB10,772 in 2015, at a CAGR of

12.7%. The following table sets forth the per capita disposable income of PRC urban residents, the per capita net income of rural residents, the total amount of RMB-denominated deposits of PRC urban and rural residents, and the total amount of PRC personal RMB-denominated loans and its percentage of total domestic loans as of the dates and for the periods indicated.

	As of or for the year ended December 31,						CAGR
	2010	2011	2012	2013	2014	2015	(2010-2015)
Per capita disposable income of urban residents (RMB)	19,109	21,810	24,565	26,467	28,844	31,195	10.3%
Per capita net income of rural residents (RMB)	5,919	6,977	7,917	8,896	9,892	10,772	12.7%
Total amount of RMB-denominated deposits of urban and rural residents (in billions of RMB)	30,330	34,364	39,955	44,760	48,526	54,607	12.5%
Total amount of PRC personal RMB-denominated loans (in billions of RMB)	11,254	13,601	16,130	19,850	23,141	27,021	19.1%
As a percentage of total domestic loans (%)	23.5%	24.9%	25.7%	27.7%	28.4%	28.8%	N/A

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

Due to lifestyle changes and rising consumption levels as a result of the accumulation of residents' wealth, consumer demand for more diversified personal banking products and services has been increasing and has become a major growth driver for PRC commercial banks. We believe the personal wealth in China will continue to increase and drive demand for personal banking products and services, including personal loans, debit and credit cards, and wealth management services.

- **Consumer Loans:** As of December 31, 2013, 2014 and 2015, the balance of consumer loans in China amounted to RMB13.0 trillion, RMB15.4 trillion and RMB19.0 trillion, respectively, representing a CAGR of 20.9% from 2013 to 2015.

- **Debit and Credit Cards:** According to the PBOC, as of December 31, 2013 and 2014, the accumulative number of debit cards issued in China was 3.82 billion and 4.48 billion, respectively, and the accumulative number of credit cards issued in China was 0.39 billion and 0.46 billion, respectively. As of December 31, 2015, the number of debit cards in issue in China was 5.01 billion and the number of credit cards in issue in China was 0.43 billion. As of December 31, 2013, 2014 and 2015, the transaction amount of bank cards in China was RMB423.4 trillion, RMB449.9 trillion and RMB669.8 trillion, respectively, representing a CAGR of 25.8% from 2013 to 2015.

- **Wealth Management Services:** Due to the rapid growth in residents' disposable income and an expanding class of wealthy individuals, strong demand for wealth management services has emerged in recent years. In particular, PRC commercial banks have begun to offer customized and professional services, such as wealth management and private banking services, to mid- to high-end customers.

Increasing Importance of Banking Services to Small and Micro Enterprises

There are a huge number of small and micro enterprises in China which have laid a solid foundation for sustainable and stable economic growth in China. According to the SAIC's statistics, as of December 31, 2013, there were approximately 11.70 million registered small and micro enterprises in China, accounting for 76.6% of the total number of enterprises. However, small and micro enterprises' demand for financing has not been fully addressed. According to the PBOC, as of December 31, 2015, the balance of loans to small and micro enterprises in China amounted to approximately RMB17.4 trillion, representing approximately 18.5% of total outstanding RMB-denominated loans extended by PRC financial institutions.

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

- In March 2013, the CBRC issued the Notice on Deepening Small and Micro Enterprise Banking Services* (關於深化小微企業金融服務的意見), clarifying favorable policies and measures to financial institutions in respect of information sharing, credit enhancement and fiscal and tax support for their financial service to small and micro enterprises, in order to encourage commercial banks to improve their service quality and expand financial product offerings, financing channels and network coverage for small and micro enterprises.

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

- In June 2014, the PBOC lowered the Renminbi statutory deposit reserve ratio by 0.5 percentage points for commercial banks which satisfied the prudent operational requirements for granting loans to small and micro enterprises and to borrowers in the agricultural industry or rural areas or, to farmers. In February 2015, the PBOC further lowered the Renminbi statutory deposit reserve ratio by 0.5 percentage points for commercial banks that satisfy conditions mentioned above.

- In July 2014, the CBRC issued the Notice on Improving and Innovating Loan Services for Small and Micro Enterprises and Enhancing Financial Services for 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 encourages banking institutions to set reasonable loan maturities to support the working capital needs of small and micro enterprises, to expand and enhance working capital loan product offerings to small and micro enterprises, and to actively explore innovative models to provide working capital loans to small and micro enterprises.

- In January 2016, the State Council published the Plan for Promoting Inclusive Finance (2016-2020)* (關於印發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.

With the continuous development of China's capital markets, large-scale enterprises and group customers will seek to satisfy some of their financing needs through the capital markets instead of through bank loans, and consequently, small and micro enterprises will become an increasingly important customer base for PRC commercial banks. According to the PBOC, in 2013, 2014 and 2015, loans to small and micro enterprises increased rapidly with an annual growth rate of 14.2%, 15.5% and 13.9%, respectively.

The following table sets forth the breakdown of the loans extended to small and micro enterprises (including loans to small-sized enterprises, micro-sized enterprises, individual business households and small and micro business owners) by banking institutions in China as of the dates indicated.

	As of December 31, 2015		As of March 31, 2016	
	Amount	% of total	Amount	% of total
	(in billions of RMB, except percentages)			
Large Commercial Banks	6,674.7	28.4%	6,873.7	28.3%
Rural commercial banks	3,923.0	16.7	4,214.5	17.3
City commercial banks	3,721.4	15.9	3,938.3	16.2
Nationwide joint-stock commercial banks	3,824.6	16.3	3,795.1	15.6
Foreign banks	177.8	0.8	183.9	0.8
Other banking institutions	5,138.3	21.9	5,290.7	21.8
Total	**23,459.8**	**100.0%**	**24,296.2**	**100.0%**

Source: CBRC

Substantial and Rapid Growth of County Area Banking Business

The County Areas economy is important to China's national economy. In recent years, with increasingly accelerated urbanization in China, the County Areas, as a key point to expand domestic consumption, accelerate urbanization and balance regional development, have enormous development opportunities and are expected to become internal impetus of China's long-term economic growth. In February 2016, the State Council published the Certain Opinions on Deepening the Development of New Urbanization* (關於深入推進新型城鎮化建設的若干意見), directing greater support to counties and major towns with significant development potential and strong population-carrying capacity in Central and Western China. With increasingly unleashed economic growth potential and continuous improvement in the financial environment in the County Areas, the County Area Banking Business will also face significant demand and good opportunities in the future. According to the 2015 Yearbook of China's County Areas, the County Areas accounted for 93.8% of China's total land area and 74.6% of China's total population as of December 31, 2014. In 2014, the GDP from County Areas accounted for 57.2% of China's total GDP.

The rapid growth of the County Areas economy and the favorable policies implemented by the PRC government in recent years have spurred a fast-growing financial market in the County Areas. However, the penetration rate of financial services in the County Areas remains relatively low, which represents significant growth potential. In this context, certain Large Commercial Banks and foreign banks have intensified their market expansion efforts in the County Areas. According to the PBOC and the 2015 Yearbook of China's County Areas, as of December 31, 2014, the total outstanding loans of all financial institutions in the County Areas amounted to RMB22.0 trillion, accounting for 25.3% of the total loans of all financial institutions in China.

Challenges and Opportunities for Banks Arising from Internet Finance

In recent years, Internet-based financial service companies are developing rapidly in China. At present, the major financial services provided by China's Internet-based financial service companies include online personal loans, third-party online and mobile payment, as well as online and mobile wealth management. These Internet-based financial service companies bring in innovative service models, lower the threshold and the cost of providing financial services for the public, and improve the customer experience. Accordingly, China's banking financial institutions are facing the challenges with respect to products, technologies and customer experience.

China's banking industry has capitalized on rapidly developing digital and mobile technology to introduce new businesses, products and service platforms, including the establishment of e-commerce platforms to provide financial services to customers and online sales platforms for financial products. Certain commercial banks have attempted to improve operating efficiency and risk management by utilizing big data technology. By integrating their physical networks and services and electronic banking, banks can provide more convenient traditional banking services and innovative banking products to customers. Application of electronic banking channels such as Internet banking, telephone banking and mobile banking has opened broad new channels for banks to expand their banking businesses. In the meantime, online payment is gradually becoming one of the major payment channels. Expanding user base and increasing demand for mobile banking in China have resulted in comprehensive cooperation between commercial banks and Internet companies in the area of Internet finance, which will become one of the focuses of commercial banks' transformation.

Effects of the Development of China's Capital Markets and Financial Disintermediation on the Banking Businesses

Internationalization of Renminbi, further open-up of capital accounts and a refined exchange rate system for Renminbi will encourage cross-border capital flows and promote connectivity of financial markets. In recent years, China has launched a number of initiatives to further develop its capital markets, including replacing the approval-based system with the registration-based system for offering asset-backed securities, relaxing the restrictions on public offerings of corporate bonds, implementing registration-based systems for private placements of bonds, launching the Shanghai-Hong Kong Stock Connect, and introducing the scheme for mutual recognition of publicly offered funds between the PRC and Hong Kong. China will gradually establish a multi-level capital market system which will result in change of social financing structure, in which direct financing will take a larger share in total financing and the trend of financial disintermediation will accelerate. According to statistics from the PBOC, the proportion of corporate bonds financing and equity financing from non-financial institutions in the incremental total social financing volume increased from 5.2% in 2013 to 24.0% in 2015.

These developments may affect the core business of China's banking industry. For example, the deepening reform of China's bond markets may affect the loan business of commercial banks, as certain corporate borrowers may issue debt securities at lower costs, which may reduce the demand for bank loans. However, the development of capital markets also created opportunities for PRC commercial banks to provide diversified financial products and services, in particular, accelerating the development of fee- and commission-based businesses such as wealth management services, the investment banking business and fund distribution. The development of China's capital markets also broadened the variety of investible securities for commercial banks, for instance, a number of commercial banks have recently introduced new products such as asset-backed securities and negotiable certificates of deposit into their investment portfolios.

Increasingly Accelerated Comprehensive Operations and Internationalization of the PRC Banking Industry

As interest rate liberalization is nearing completion, the comprehensive service model will become one of the future trends for China's banking industry. Currently, PRC commercial banks are allowed to apply for licenses of, among others, trust, funds, insurance and financial leasing. The transformation towards the comprehensive service model will be a gradual process, as the relaxation of financial licenses involves various changes in laws and regulations and reform of the regulatory regimes. Asset management and investment banking will become major areas for comprehensive service operations for China's banking industry. Commercial banks are expected to gradually expand market share in capital market businesses by virtue of their strengths in scale and resources and leverage their large customer base to offer diversified and integrated financial services for customers. As such, the comprehensive service model will become a new way to improve the profitability of PRC commercial banks and will significantly improve the ecosystem of China's financial services industry.

With the steady progress of comprehensive services, cross-selling of financial products across a bank's integrated outlet network and electronic banking has become an important way for banks to increase their fee and commission income. Hong Kong listed PRC commercial banks' average proportion of net fee and commission income in total income was 16.8% in 2015, while the average proportion was 12.4% in 2010. As PRC banks continue to expand their fee- and commission-based product and service offerings to meet the increasingly sophisticated demand of corporate and retail customers, it is expected that the fee- and commission-based businesses of China's banks will have significant growth potential.

Moreover, in recent years, the banking institutions in China have accelerated the pace of their overseas expansion, taking active roles in mergers and acquisitions and strategic investments to consolidate and expand their overseas businesses. According to the CBRC, as of December 31, 2015, 22 Chinese banking institutions had established 1,298 overseas branches and sub-branches in 59 countries and regions.

OVERVIEW

In China, the banking industry is extensively regulated, mainly by the CBRC, PBOC and MOF. The CBRC is responsible for supervising and regulating banking financial institutions while the PBOC, as the central bank of China, is responsible for formulating and implementing monetary policies. The MOF is responsible for supervising and regulating state-owned financial assets. Laws and regulations applicable to the banking industry in China mainly include the PRC Commercial Banking Law, the PRC PBOC Law and the PRC Banking Supervision and Regulation Law as well as regulations and rules formulated thereunder.

HISTORY AND DEVELOPMENT OF THE REGULATORY FRAMEWORK

The PBOC, established on December 1, 1948, was originally the major regulatory authority of the financial industry in China. In January 1986, the State Council issued the Provisional Regulations of the People's Republic of China on the Control of Banks* (中華人民共和國銀行管理暫行條例), stating clearly for the first time that the PBOC was the central bank of China and the regulatory authority of the financial industry in China.

The current banking regulatory framework took shape in 1995 with the promulgation of the PRC PBOC Law and the PRC Commercial Banking Law. The PRC PBOC Law promulgated in March 1995 stipulated the PBOC's scope of responsibilities and organizational structure, authorizing the PBOC to manage the RMB, implement monetary policies and supervise the financial industry in China. The PRC Commercial Banking Law, which was promulgated in May 1995, stipulated the basic operation principles for commercial banks in China.

Since then, China's regulatory framework for the banking industry experienced further significant reform and development. In April 2003, the CBRC was established to take over the major role of regulating China's banking industry which was previously assumed by the PBOC and was mandated to implement reforms, minimize overall risks, promote stable development and enhance the international competitiveness of the PRC banking industry. In December 2003, the PRC PBOC Law and the PRC Commercial Banking Law were amended.

On February 1, 2004, the PRC Banking Supervision and Regulation Law was officially implemented, stipulating the CBRC's regulatory functions and responsibilities. On October 31, 2006, the PRC Banking Supervision and Regulation Law was amended and has been implemented from January 1, 2007.

On August 29, 2015, the Standing Committee of the National People's Congress issued the Decision of the Standing Committee of the National People's Congress on Amending 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), and the amended PRC Commercial Banking Law came into force on October 1, 2015.

MAJOR REGULATORY AUTHORITIES

CBRC

Functions and Power

The CBRC is the major regulatory authority for banking financial institutions in China, responsible for supervising and regulating banking financial institutions operating in China, including commercial banks, urban credit cooperatives, rural credit cooperatives, other financial institutions taking public deposits and policy banks, as well as certain non-banking financial institutions. The CBRC is also responsible for supervising and regulating overseas entities established by domestic financial institutions, and the overseas business of such banking and non-banking financial institutions. According to the PRC Banking Supervision and Regulation Law as amended in 2006 and related regulations, the major regulatory functions and supervising measures of the CBRC include:

- formulating and publishing regulations and rules which regulate banking financial institutions and their business activities;
- reviewing and approving the establishment, change and termination of banking financial institutions and their business scopes, as well as granting financial permits to commercial banks and their branches;
- regulating business activities of banking financial institutions, including their products and services;
- approving and supervising the qualifications of directors and senior management of banking financial institutions;
- establishing prudent operation rules regarding risk management, internal control, capital adequacy ratio, asset quality, the allowance for impairment losses, risk concentration, related party transactions and asset liquidity of banking financial institutions;
- conducting on-site inspection and off-site supervision on the business activities and risk profiles of banking financial institutions;
- formulating emergency response systems and plans by cooperating with related departments;
- taking actions to rectify and punish activities which violate regulations of the banking industry;
- preparing and publishing national statistics and financial statements of banking financial institutions; and

- taking over or procuring the reorganization of banking financial institutions which have seriously affected the legal rights and benefits of depositors and other clients, in the event of an actual or potential credit crisis.

Inspection and Supervision

The CBRC regulates the operations of banks and their branches through on-site inspection and off-site supervision by its headquarters in Beijing and local offices nationwide. On-site inspection typically includes checking business venues and electronic data system of the banks on the site, interviewing staff, senior management and directors of the banks, asking for explanations on significant events related to operations and risk management of the banks, and reviewing related documents and data maintained by the banks. Off-site supervision usually covers reviewing business reports, financial statements and other reports submitted by the banks to the CBRC regularly.

The CBRC is authorized to take corrective and punitive measures against banking financial institutions failing to comply with relevant regulations on the banking industry, including imposing a fine, ordering to suspend part of businesses, ceasing to approve new business, restricting the distribution of dividends and other income and asset transfer, ordering controlling shareholder to transfer equity interest or limiting the rights of relevant shareholders, ordering the change of directors, senior management or limiting their rights, or ceasing to approve the establishment of new branches. Under extreme circumstances or when banking financial institutions fail to rectify within the period specified by the CBRC, the CBRC may order it to suspend business for rectification or revoke its business permit. In the event of credit crisis or potential credit crisis of a banking financial institution which severely affects the legal rights and benefits of the depositors or other clients, the CBRC may assume management control over, or arrange for the reconstruction of such banking financial institution.

PBOC and the Inter-departmental Coordination Joint Meeting for Financial Supervision

As the central bank of China, the PBOC is responsible for formulating and implementing monetary policies, and safeguarding the stability of the financial market in China. According to the PRC PBOC Law and related regulations, the PBOC is authorized to perform the responsibilities as follows:

- publishing and implementing orders and rules related to its responsibilities;
- formulating and implementing monetary policies according to the law;
- issuing RMB and managing the circulation of RMB;
- supervising and regulating interbank lending market and interbank bond market;
- exercising foreign exchange control and regulating the interbank foreign exchange market;
- regulating the gold market;

- holding, managing and operating the nation's foreign exchange reserves and gold reserves;
- managing the national treasury;
- maintaining normal operation of the payment system and the clearing system;
- guiding and leading anti-money laundering measures in the financial industry and monitoring the fund flows related to anti-money laundering;
- responsible for the statistics, investigation, analysis and forecasts of the financial industry; and
- engaging in international financial activities as the central bank of China.

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), building up such system led by the PBOC. The members thereof include the CBRC, CSRC, CIRC and SAFE and the relevant departments such as the NDRC and MOF may be invited for participation when necessary.

MOF

The MOF is a department under the State Council which is responsible for performing related functions such as the national finance, taxation, accounting and the supervising and regulating of state-owned financial assets. The MOF regulates the performance assessment and remuneration system of the senior management of state-owned banks, and supervises the compliance of banks with the Accounting Standards for Business Enterprises (企業會計準則) and Financial Rules for Financial Enterprises (金融企業財務規則). The MOF's major responsibilities in relation to financial enterprises include:

- formulating and implementing finance and tax development strategies, plans, policies and reform proposals;
- drafting laws and regulations for fiscal, financial and accounting management, and formulating departmental rules;
- supervising and regulating of state-owned assets of financial enterprises and the appraisal of assessing state-owned assets, and participating in formulation of the relevant management system for state-owned assets in financial enterprises; and
- supervising and inspecting the implementation of financial and tax regulations and policies, reporting major problems in the management of fiscal revenues and expenditures, and managing the offices of financial supervisors.

Other Regulatory Authorities

In addition to aforesaid regulatory authorities, commercial banks in China are also subject to the supervision and regulation of the NDRC, SAFE, CSRC, CIRC, NAO, SAIC, SAT and their respective local offices and other regulatory authorities.

INDUSTRY ACCESS REQUIREMENTS

Basic Requirements

At present, the establishment of a Chinese-funded commercial bank including large state-controlled commercial banks, PSBC, joint-stock commercial banks and city commercial banks, among others must be approved and licensed by the CBRC. According to the current regulations, the CBRC typically will not approve the application for establishing a Chinese-funded commercial bank unless the following requirements are met. The relevant requirements include but not limited to:

- the articles of association must comply with related requirements of the PRC Company Law and the PRC Commercial Banking Law;
- the registered capital shall be paid-in capital, in an amount of at least RMB1 billion or equivalent in convertible foreign currency, while the minimum amount of registered capital for establishing a city commercial bank shall be RMB100 million;
- there are competent directors, senior management, and qualified practitioners who are familiar with the banking business;
- there is sound organizational structure and management system;
- there are proper business premises, safety precautionary measures and other facilities for business operations; and
- establish proper information technology framework for business operation, including safe and compliant information technology systems necessary to support the business operation, and the related technologies and measures to ensure effective and safe operation of the information technology system.

Significant Changes

All significant changes of a Chinese-funded commercial bank must be approved by the CBRC or its local offices, including:

- change of name of the head office or branches;
- change of registered capital;
- change of domicile of the head office or branches;
- change of business scope;
- change of organizational form;
- change of shareholders holding 5% or more of total capital or total shares;

- investment in shares by overseas financial institutions;
- alteration of articles of association;
- establishment or termination of branches;
- merger or spin-off; and
- dissolution and bankruptcy.

Branches and Business Network

Domestic Branches

The establishment of a domestic branch by a Chinese-funded commercial bank according to its business needs must be approved by the CBRC or its local offices, and obtain financial permit and business license. The Chinese-funded commercial bank which domestically establishes a branch shall appropriate the working capital corresponding to its operating scale as required. The total appropriated amount of the working capital of all branches shall not exceed 60% of the total capital amount of the head office.

Overseas Branches

The establishment of an overseas branch by a Chinese-funded commercial bank must be approved by the CBRC in addition to complying with all applicable requirements in the relevant foreign jurisdiction and the Chinese-funded commercial bank that applies for such approval shall meet the following requirements:

- there is a good corporate governance structure, a sound and effective internal control, a business line management and risk control capability compatible with the overseas business development;
- there are clear overseas development strategies;
- there is good consolidated management capability;
- major prudent regulatory indicators meet regulatory requirements;
- balance of equity investment shall not exceed 50% of its net assets (in the consolidated accounting statements) in principle;
- consecutive profit(s) were recorded for the last three fiscal years;
- balance of the assets at the end of one year before application has reached RMB100 billion or more;

- there is a professional team compatible with the overseas operating environment; and
- other prudent conditions required by the CBRC's rules.

Agency Business Institutions

On November 30, 2015, the CBRC promulgated the Measures for the Administration of Agency Business Institutions, under which an agency business institution refers to a postal enterprise operating entity approved by the CBRC and granted with financial permit to operate the relevant business of a commercial bank within the scope of business entrusted by PSBC, and being an integral part of the service network of PSBC. PSBC shall formulate nationwide unified rules for regulating the naming of agency business institutions, and agency business institutions shall be named as "Postal Savings Bank of China Co., Ltd. XXX Business Institute."

The relevant commercial banking business entrusted by PSBC and conducted by the postal enterprises must be conducted through the establishment of an agency business institution in the name of PSBC. Postal enterprises are forbidden to conduct relevant commercial bank business not entrusted by PSBC. PSBC shall not entrust any enterprise or individual, other than an agency business institution, to conduct relevant commercial banking business without approval of the CBRC, unless otherwise required by laws and regulations. A postal enterprise that engages in agency banking businesses entrusted by PSBC shall implement segregated management with its postal business, with independent accounting on costs and revenue. PSBC shall establish a transparent business cooperation mechanism with China Post Group and enter into a comprehensive cooperation framework agreement to confirm the relationship of rights, obligations and benefits in such cooperation. PSBC should establish with the postal enterprises a nationwide unified management system for principal-agent relationship, implement authorization by tiers under their respective entities for principal-agent relationship, and the principal-agent agreements shall adopt a uniform text format.

Annual planning management is implemented for establishing new agency business institutions of PSBC. The establishment of an agency business institution within a scheduled plan shall go through the two stages of setup and commencement of business. The applicant for the setup of an agency business institution must be a tier-1 branch of PSBC, and the applicant shall meet the following requirements:

- has sound and effective internal control, risk management and accountability systems;
- no material incidents have occurred in the last two years in branches and sub-branches under its administration;
- has established the management system and mechanism for agency business institutions and has sufficient professional management capabilities; and
- other prudent conditions required by the CBRC.

Applications for the setup of agency business institutions shall be approved by the competent local office of the CBRC.

The commencement of business of an agency business institution of PSBC shall comply with the following requirements:

- a counter for separately conducting the banking business has been set up at the place of business of the postal enterprise, and the cash area of the agency business institution is effectively physically separated from the place of postal business;
- there have been persons in charge and professional bank staff in compliance with the regulatory requirements;
- there have been security, services and other facilities compatible with the banking operations and in compliance with the regulatory requirements;
- there has been a networking and information technology system physically separated from the postal business in compliance with the business operating requirements and the information technology risk control requirements and a facilities operating room in compliance with the commercial banking operating criteria; and
- other prudent conditions required by the CBRC.

Application for commencement of business of an agency business institution shall be submitted by tier-2 branches or branches superior thereto of PSBC and approved by the competent local office of the CBRC.

Application for the changes (including change of name) and termination of operations (unless lawful revocation) of agency business institutions shall be lodged by tier-2 branches or branches superior thereto of PSBC and approved by the competent local offices of the CBRC.

Termination of operations of agency business institutions (except lawful revocation) shall meet the following requirements:

- no vacant financial services shall be allowed;
- there has not been any event of bank run in the county (district) where the agency business institution that intend to terminate operations is located in the last two years; and
- other prudent conditions required by the CBRC.

Business Scope

In accordance with the PRC Commercial Banking Law, commercial banks in China are allowed to:

- take public deposits;
- extend short-term, medium-term and long-term loans;

- process domestic and overseas settlements;
- process bill acceptance and discounting;
- issue financial bonds;
- act as an agent for issuance, cash and underwriting of government bonds;
- purchase and sell government bonds and financial bonds;
- conduct interbank borrowings;
- buy and sell foreign exchange, or act as an agent thereof;
- operate bank card business;
- provide letter of credit services and guarantees;
- act as an agent for receipts and payment and insurance business;
- provide safe deposit box service; and
- other businesses approved by the banking industry regulators under the State Council.

Commercial banks must specify business scope in their articles of association which will be submitted to the CBRC or its local offices for review and approval. A commercial bank may deal with exchange settlement and sales business upon approval from or filing with the PBOC and SAFE.

Pursuant to the Measures for the Administration of Agency Business Institutions, agency business institutions entrusted by PSBC may conduct certain banking businesses of PSBC, but cannot conduct corporate deposit-taking, credit and treasury businesses.

REGULATION ON MAJOR BUSINESS OF COMMERCIAL BANKS

Loans

In order to control credit extension related risks, commercial banks should establish strict and unified credit risk management system, establish standard operation procedures for each phase of credit extension and appoint qualified risk control personnel.

The CBRC and other related authorities have promulgated a number of regulations and guidelines regarding loans and credit extended to certain industries and clients. For example:

- On July 18, 2009, the CBRC issued the Guidelines on Project Financing Business* (項目融資業務指引), which requires banking financial institutions to establish a set of sound operating procedures and risk management system. Banking financial institutions must comprehensively identify and assess various risks in the construction period and operation period of the project, including policy risks, financing risks, project completion risks, market risks for the product, risks of over-budget, raw material risks, operation risks, exchange rate risks, environmental risks and other related risks. The guidelines also require that banking financial institutions shall also focus on the borrower's debt-paying ability and evaluate project risks from the aspects of technical feasibility, financial feasibility and reliability of the source of funds for debt repayment. Furthermore, banking financial institutions shall require the borrowers to establish a designated account for receipts of the project income, and deposit all the receipts of the project in such account, shall monitor the account of receipts, and when the cash flow in the account is abnormal, shall examine the reasons promptly and take actions accordingly.

- On July 23, 2009, the CBRC issued the Interim Provisions on the Management of Fixed Asset Loans* (固定資產貸款管理暫行辦法), which require that banking financial institutions should improve the internal control mechanism, implement full-process loan management, fully understand the information about the clients and the project, establish a fixed asset loan risk management system and an effective mechanism for balancing different positions, assign to specific departments and positions the duties in all aspects of loan management, establish a mechanism for assessment and accountability for all positions; and shall reinforce the management of loan usage and improve the management of extension and disbursement of loans. Banking financial institutions are also required by such provisions to reach an agreement with borrowers in the contract on contents important to the control of credit risks, and to establish loan quality supervision system and early warning system for loan risks. According to the Interpretation of the Interim Provisions on the Management of Fixed Asset Loans by the CBRC* (中國銀行業監督管理委員會關於固定資產貸款管理暫行辦法的解釋口徑) issued by the CBRC on March 11, 2010, "Fixed Asset Loans" refer to loans used for investment in fixed assets. Regardless of how the lender classifies the types of loans internally, as long as the loan is used for investment in fixed assets, it is a fixed asset loan. The scope of fixed asset investments shall be referred to the "Fixed Asset Investment Statistical Statement System"* (固定資產投資統計報表制度) issued by relevant bureau of statistics, and the statistical requirement for fixed asset investment refers to fixed asset investment project with total investment amount of RMB500,000 and above.

- On February 12, 2010, the CBRC issued the Interim Provisions on the Management of Working Capital Loans* (流動資金貸款管理暫行辦法), which require that banking financial institutions shall establish effective internal control and risk management system to monitor and control the use of working capital loans and fully understand client information, shall reasonably estimate the working capital demand of the borrowers and prudently determine the credit limit for the aggregate working capital of the borrowers and the credit limit for each loan, and shall not grant working capital loans that exceeds the borrower's actual demand. Banking financial institutions are required to clearly specify with the borrowers in the loan agreement the use of the loans. The working capital loans shall not be used in fixed asset investment, equity investment or other areas and purposes as prohibited by the government.

- On February 12, 2010, the CBRC issued the Interim Provisions on Management of Personal Loans* (個人貸款管理暫行辦法), which require banking financial institutions to establish an effective full-process management mechanism and risk limit management system for personal loans and to set certain requirements of application for personal loans. The use of personal loans shall comply with the laws and regulations and the relevant national policies. Banking financial institutions shall not grant any personal loans without specific purpose.

- On April 17, 2010, the State Council issued the Notice of the State Council on the Resolute Suppression of Excessively Rapid Increase in Housing Prices in Some Cities* (國務院關於堅決遏制部分城市房價過快上漲的通知), which requires commercial banks to strengthen the pre-lending review process and post-lending management of loans granted to real estate development enterprises, and prohibits commercial banks to grant new development project loans to real estate developers possessing idle land or involving in property speculative activities. On February 26, 2013, the General Office of the State Council issued the Notice of the General Office of the State Council on Continuing to Implement the Adjustment and Control Measures for the Real Estate Market* (國務院辦公廳關於繼續做好房地產市場工作調控的通知), which further prohibits commercial banks from granting new development project loans to real estate developers involved in activities in breach of laws and regulations such as possessing idle land and land speculative activities, holding up property units and limiting the sale therefore, pushing up property prices, etc.

- On June 4, 2010, the CBRC issued the Guidelines for Commercial Banks on the Risk Management on Credit Extension to Group Clients* (商業銀行集團客戶授信業務風險管理指引), which requires commercial banks to formulate risk management rules for their credit extension to group clients and file such rules with the banking regulatory authority. When the credit extended to one single group borrower exceeds 15% of the net capital of the commercial banks, such commercial banks shall take measures such as syndicated loans, joint loans and loans transfer to diversify the risks. In accordance with the requirements of prudential regulation, the banking regulatory authority may lower the ratio of the outstanding credit limit extended by a single commercial bank to a single group client, to such commercial bank's net capital.

- On August 30, 2004, the CBRC issued the Guidelines for Commercial Banks on the Management of Risks Related to Real Estate Loans* (商業銀行房地產貸款風險管理指引), which requires commercial banks to establish the approval standards for real estate loans (including land reserve loans, real estate development loans, personal residential mortgage loans and commercial housing mortgage loans) and the risk management and internal control system for real estate market risks, legal risks and operational risks. Commercial banks are prohibited from granting any loans in any form to any real estate development project which has not obtained state-owned land use right certificate and related permit for real estate development. The CBRC and its local offices may regularly inspect the implementation of such Guidelines.

- On September 29, 2014, the PBOC and CBRC issued the Circular of the PBOC and the CBRC on Further Implementation of 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 encourages banking financial institutions to provide support to shanty town reconstruction and affordable housing construction projects actively, according to the principles of controllable risks and financial sustainability. The term of loans for public rental housing and shanty town reconstruction may be extended up to a maximum of 25 years. Subject to prevention of risks, banking financial institutions may reasonably allocate its credit resources to support real estate enterprises with good credit worthiness and credibility in the development of ordinary commercial housing properties and provide active support in satisfying reasonable financing needs of projects under construction and of further construction with market prospect.

- On September 29, 2010, the PBOC and CBRC issued the Notice of the PBOC and the 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) for the implementation of the relevant requirements on housing loans under the Circular of the State Council on the Resolute Suppression of Excessively Rapid Increase in Housing Prices in Some Cities, which requires commercial banks to suspend the extension of housing loans to families who purchase the third or more residential properties or to non-local residents who are unable to provide payment records of local tax or social security over one year. With respect to a first-home buyer of any residential property, the minimum down payment is set at 30%, while the minimum down payment for home buyers purchasing a second residential property is 50% with the interest rate being no less than 1.1 times of the PBOC benchmark interest rates on loans. On March 8, 2011, the CBRC issued the Notice of the General Office of the CBRC Concerning the Improvement of Housing Financial Services and the Reinforcement of Risk Management* (中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知), which provides that the minimum down payment for the second residential property would be raised to 60% for housing loans granted after the issuance of the Notice of the General Office of the State Council on Issues Concerning Further Enforcing the Regulation and Control of Real Estate Market* (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). On September 29, 2014, the PBOC and CBRC issued the Circular of the PBOC and CBRC on Further Implementation of Housing Financial Services, which sets the minimum down payment at 30% and the minimum interest rate at 0.7 times of PBOC benchmark interest rates on loans for families purchasing ordinary residential property for self-use for the first time. The notice further provides that banking financial institutions should apply the policies of first-home buyers to families which already own a residential property not subject to any outstanding mortgage, and are applying for a loan to purchase another ordinary residential property to improve their living conditions. In cities which have cancelled or have not imposed any restrictions on property purchasing, where a family that owns two or more residential properties and has repaid in full all relevant loans, applies for a loan to purchase another residential property, banking financial institutions shall undertake prudent assessment to determine the down payment ratio and the interest rate, taking into account factors including the borrower's ability to make repayment and credit standing. On March 30, 2015, the PBOC, Ministry of Housing and Urban-Rural Development and CBRC released the Circular on Issues Concerning the

Individual Housing Loan Policies* (關於個人住房貸款政策有關問題的通知), which encourages banking financial institutions to continue releasing loan packages combining commercial individual housing loans and provident fund loans and support families in the purchase of ordinary residential property for self-use in order to further improve the policy for individual housing credit loans, satisfy the housing needs for self-occupation and upgrading, and promote the stable and healthy development of the real estate market. In respect of families owning a residential property which is subject to outstanding mortgage, when they apply for commercial individual housing loans for the purchase of another residential property to improve their living conditions, the minimum down payment shall not be less than 40%. The specific amount of the down payment and interest rate shall be determined by the relevant banking institutions based on factors including the borrower's credit standing and repayment ability. In respect of working households that have contributed to the housing provident fund, when they use the housing provident fund loans to purchase another residential property as their first home, the minimum down payment shall be 20%. In respect of working households that have contributed to the housing provident fund and have already owned a residential property which is not subject to any outstanding mortgage, when they apply for the second time to use the housing provident fund loans to purchase another residential property to improve their living conditions, the minimum down payment shall be 30%. The local office of the PBOC and CBRC at all levels shall adhere to the principles of administration with local differences and the guidelines of categorization, improve the communication with the local government and strengthen the supervision on the differentiated housing credit policies by banking financial institutions; based on the national uniform credit policy, provide guidance to banking financial institutions regarding the determination of the reasonable minimum down payment ratio and the interest rate for individual commercial housing loans under their administration; closely monitor and assess the execution and implementation of the credit policy for housing to lower risks effectively and promote the stable and healthy development of the local real estate market. On August 27, 2015, the Ministry of Housing and Urban-Rural Development of the PRC, MOF and PBOC jointly promulgated the Circular on Revising the Percentage of the Minimum Down Payment for the Purchase of Residential Properties with Housing Provident Fund* (關於調整住房公積金個人住房貸款購房最低首付款比例的通知), which provides that, effective from September 1, 2015, families owning a residential property with the corresponding housing loans fully repaid, when applying for the housing provident fund for the purchase of another residential property to improve their living conditions, are subject to a minimum down payment of 20% (reduced from 30%). Beijing, Shanghai, Guangzhou and Shenzhen may, in accordance with local practice, determine at their own discretion the minimum down payment ratio for the purchase of a second residential property financed by application of housing provident fund loans based on the national uniform policy. According to the Notice on Issues Concerning the Further Improvement of Differential Housing Credit Policies* (關於進一步完善差別化住房信貸政策有關問題的通知) issued by the PBOC and CBRC on September 24, 2015, in cities which have not imposed any restrictions on property purchasing, for households which apply for commercial individual housing loans for the purchase of their first housing, the minimum down payment is adjusted to no less than 25%. According to the Notice on Issues Concerning Revising Residential Housing Credit Policies* (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, in cities which have not imposed any restrictions on property purchasing, for households which apply for commercial individual housing loans for the purchase of their first housing, the minimum down payment shall be not less than 25% while 5 percentage points reduction therefore may be applied in each place; when families own a residential property with outstanding corresponding housing loans and reapply for commercial individual housing loans for the purchase of another ordinary residential property to improve their living conditions, the minimum down payment is adjusted to no less than 30%. In cities which have not imposed any restrictions on property purchasing, individual housing loan policy will follow the original requirements. The banking financial institutions should combine the minimum down payment ratio requirements designated by the self-disciplinary mechanism for market interest rate pricing at provincial levels with their own commercial individual housing loan granting policy and risk prevention and control factors, and taking into account the credit worthiness and repayment ability of the borrowers to reasonably determine the specific down payment ratio and interest rate level.

- The Circular of the State Council on 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 the 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 Further Implementation of Risk Control and Management of Loans to 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 as well as the Guiding Opinions of the 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, require that banking financial institutions strictly implement pre-lending investigation, examination at 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 financial institutions are also required to consider the indebtedness of local governments and the potential risks and expected losses of loans to LGFVs and reasonably provide the allowance for impairment losses and determine the risk-weighting in calculating capital adequacy by full coverage, basic coverage, semi-coverage and non-coverage of cash flow of such loan. The Guiding Opinions of the CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013* (中國銀監會關於加強2013年地方政府融資平台貸款風險監管的指導意見) issued by the CBRC on April 9, 2013, requires each bank to impose aggregate loan limits on LGFVs and not to expand the loans scale of LGFVs, and also provide that, for the LGFVs with a cash flow coverage ratio lower than 100% or an asset-liability ratio higher than 80%, the proportion of their loans to total loans granted by the bank to financial vehicles should not exceed that of the previous year, and that the bank shall take measures to gradually reduce credit extension and actively collect such loans. Under the Opinions of the State Council on Strengthening the Administration of Local Government Debts* (國務院關於加強地方政府性債務管理的意見) dated 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 governments or enterprises with debts, financial institutions shall strictly regulate credit management by enhancing risk identification and risk management. Financial institutions shall undertake any loss incurred as a result of providing financing to governments in violation of applicable laws or regulations, and relevant authorities and person in charge will be held accountable for their acts under the PRC Commercial Bank Law, PRC Banking Supervision and Regulation Law and other laws and regulations. The Opinions of the MOF, PBOC and CBRC on Properly Solving Subsequent Financing Issues of the On-going Projects of Local Government Financing Vehicles* (財政部、中國人民銀行、中國銀監會關於妥善解決地方政府融資平台公司在建項目後續融資問題的意見) forwarded by the General Office of the State Council on May 11, 2015 and becoming effective on the same day requires banking financial institutions to properly solve subsequent financing issues of the on-going projects of local government financing vehicles through separating management of existing loans and new loans and conducting financing in compliance with laws, to facilitate economic growth and control financial risks. Banking financial institutions shall support the existing financing needs of on-going projects of financing vehicles to ensure their orderly development in accordance with the principle of "controlling the total amount and exercising differentiated treatment." Banking financial institutions shall strictly regulate credit management and strengthen risk identification and risk control by taking into account both development and risk control. For loans to on-going projects of financing vehicles, banking financial institutions shall make their own decisions, take their own risk and optimize follow-up financing management based on prudent estimation of the repayment ability of financing vehicles, revenue from on-going projects of financing vehicles and the repayment ability of the local government. Banking financial institutions shall be cautious when reviewing direction of loans and place their focus on supporting irrigation and water conservancy facilities, affordable housing projects, urban rail transit and other areas of on-going projects of financing vehicles, to ensure that the loans are in line with industrial development needs and industrial park development plans.

- On December 22, 2009, the PBOC, CBRC, CSRC and CIRC issued the Guiding Opinions of the PBOC, CBRC, CSRC and CIRC on Further Provision of Financial Services to Support Adjusting and Revitalizing Key Industries and Suppressing the Excessive Production Capacities in Some Industries* (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), calling for responses to the national industry policies and financial control requirements by granting credit based on differentiated treatment. For enterprises and projects which are in the key industries for revitalization, and have satisfied the entry requirements and conform to bank lending policies, credit should be granted timely and efficiently. For enterprises and projects which are not able to meet the above requirements, credit must not be granted. For projects of over-capacity industries, credit may be approved after stringent review.

- The Notice of the CBRC on Publication of Guidelines of Green Credit* (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 financial institutions to support energy saving, emission reduction and environment protection, and avoid the environmental and social risks of their customers. Banking financial institutions are required to effectively identify, measure, monitor and control environmental and social risks in their credit business activities, and to establish environmental and social risk management systems. Banks are also required to explicitly determine the objectives of and the major industries to be supported by green credit, and to formulate specific guidelines for credit extensions to industries which are under strict regulation of the government and those with substantial environmental and social risks, carry out differential and dynamic credit extension policies, and implement risk exposure management systems.

- On January 13, 2015, the CBRC and NDRC issued the Notice of the CBRC and NDRC on Circulating the Guidance on Energy Efficiency Loans* (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), encouraging banking financial institutions to provide credit financing to energy consumption units. According to the content of the notice, banking financial institutions may extend credit to energy projects invested by the energy consumption units or the contracted energy management projects established by energy saving companies. Banking financial institutions shall further improve the credit risk management capability of energy saving credit facilities through multiple approaches, including (i) stipulating the entry requirements for energy projects, energy consumption units and energy saving service companies; (ii) reinforcing due diligence investigations on the granting of energy credit facilities and acquiring overall knowledge on the risk assessment of the borrowers; (iii) improving credit facilities for contracted energy management and enhancing post-payment management; and (iv) establishing credit supervision and risk alert mechanisms.

- On September 17, 2012, the CBRC issued the Circular of the CBRC on the Publication of Measures for the Management of Rural Loans (中國銀監會關於印發農戶貸款管理辦法的通知), which requires improvement in the level of services provided by banking financial institutions to support the rural community, regulation on the rural loan business, enhancement of risk management and control over rural loans and promotion of stable and healthy development of rural loans.

- The Guiding Opinion of the General Office of State Council on Financial Support for Adjustment, Transformation and Upgrading of Economic Structure* (國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見) issued by the General Office of the State Council on July 1, 2013, the Implementation Opinion of the General Office of 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 the CBRC on Deepening 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, provide that banking financial institutions shall adhere to the commercial sustainability principle and give priority in providing financial support to those small and micro enterprises whose businesses are in line with the national industrial and environmental policies, can create more job opportunities and have the intention and capability to repay the loans. Banking financial institutions shall positively adjust the credit structure subject to commercial sustainability and effective risk control.

Foreign Exchange Business

Commercial banks are required to obtain approvals from or make filings with the PBOC and SAFE to conduct foreign exchange business. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Center any large or suspicious foreign exchange transactions which they encounter on a timely manner.

Securities and Asset Management Businesses

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

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

Bancassurance Business

Commercial banks in China are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution network. Commercial banks that conduct bancassurance business are required to comply with applicable rules issued by the CIRC as well. The Notice of the CBRC on Further Strengthening Compliant Sales and Risk Management of Commercial Bank's Bancassurance Business* (中國銀行業監督管理委員會關於進一步加強商業銀行代理保險業務合規銷售與風險管理的通知) dated November 1, 2010 provides that each outlet of a commercial bank may, in principle, cooperate with no more than three insurance companies to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must report to the CBRC's local office. Pursuant to the Supervisory Guidance on the Bancassurance Business of Commercial Banks* (商業銀行代理保險業務監管指引) jointly issued by the CIRC and CBRC on March 7, 2011, if a commercial bank conducts bancassurance business, each of its outlets is required to obtain the requisite license issued by the CIRC and authorization from the tier-1 branch of the commercial bank before conducting such business. On April 25, 2016, the CIRC issued the Notice on Issues regarding Administrative Licenses for Banking Entities Conducting Bancassurance Business* (關於銀行類保險兼業代理機構行政許可有關事項的通知), changes the regulatory approach from outlets holding licenses to legal entities applying for bancassurance qualifications, holding licenses and registering outlets uniformly. In other words, after a banking legal entity obtains bancassurance qualification, its branches may conduct such business through authorization of such legal entity.

On January 8, 2014, the CIRC and CBRC jointly issued the Notice of the CIRC and CBRC concerning Further Regulation of Bancassurance Business Conducted by Commercial Banks* (中國保監會、中國銀監會關於進一步規範商業銀行代理保險業務銷售行為的通知), which sets out certain specific requirements in respect of bancassurance businesses operated by commercial banks. For example, it requires commercial banks to assess the demands and risk tolerance of the policyholders, and recommend insurance products based on the assessment results. Each outlet of a commercial bank may cooperate with no more than three insurance companies (counted by the number of legal entities) in a fiscal year. In addition, the total premium received by a commercial bank from agency sales of accident insurance, health insurance, term life insurance, whole life insurance, annuity insurance with an insurance period of no less than 10 years, endowment insurance with an insurance period of no less than 10 years, property insurance (excluding investment insurance offered by property insurance companies), guarantee insurance and credit insurance shall be no less than 20% of the total premium of its bancassurance. On May 5, 2016, the CBRC issued the Notice on Regulating Agency Sales Business of Commercial Banks* (關於規範商業銀行代理銷售業務的通知), which provides further regulations on agency sales of financial products by commercial banks. According to such notice, commercial banks conducting bancassurance business shall reinforce investor's eligibility management, fully disclose risks of products sold by agents, and sell clients financial products compatible to their risk tolerance; commercial banks shall establish segregation system between agency sale business and other business, ensuring strict segregation on account, capital and financial accounting and so forth; commercial banks can only sell financial products issued by financial institutions which are supervised by the CBRC, CIRC or CSRC according to the laws and hold financial licenses, and cannot sell products issued by institutions not within such scope, except for government bonds, physical precious metals and other products otherwise provided by the CBRC. Commercial banks shall conduct due diligence on products to be sold by agent, instead of only relying on product approval data of cooperative institutions as basis of the internal approval.

Wealth Management

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

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

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

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

Interbank Business

On April 24, 2014, the PBOC, CBRC, CSRC, CIRC and SAFE jointly issued the Circular on Regulating Interbank Businesses of Financial Institutions* (關於規範金融機構同業業務的通知) ("Circular 127"), which sets out certain requirements in connection with regulating interbank business of financial institutions. For example, (i) Circular 127 defines and regulates interbank investment and financing businesses, including interbank lending, interbank deposits, interbank borrowing, interbank financing agency services, financial assets held under resale agreements and financial assets sold under repurchase agreements; and Circular 127 also requires that interbank businesses (with investment and financing being the core businesses) should be classified into different categories in accordance with their substance, and should be managed based on the type of business; (ii) financial assets held under resale agreements and financial assets sold under repurchase agreements shall only include bank acceptance bills, bonds, treasury bills and other financial assets with a reasonable fair value and high liquidity that are traded on the interbank market or securities exchange market; (iii) financial institutions that engage in the transactions 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 according to the nature of the underlying assets invested; (v) financial institutions shall determine the financing term of interbank business in a reasonable and prudent manner; the term of interbank borrowing may not exceed three years and the term of other interbank financings may not exceed one year, and such terms may not be extended upon their maturity; (vi) the net balance of interbank funds (excluding interbank deposits for settlement purposes) extended by a single commercial bank to a single financial corporation after deducting assets with zero risk weighting may not exceed 50% of the bank's tier-1 capital; and the net balance of interbank funds borrowed by a single commercial bank may not exceed one third of its total liabilities; and (vii) financial institutions engaging in interbank businesses shall establish a sound risk management system and internal control system and adopt correct accounting rules.

On May 8, 2014, the General Office of the CBRC issued the Notice on the Regulation of the Governance of Interbank Business Conducted by Commercial Banks* (關於規範商業銀行同業業務治理的通知), which requires commercial banks to establish a management system for interbank businesses in conformity with the scale and complexity of the interbank businesses conducted, and conduct all interbank businesses through specialized departments by the end of September 2014. For the interbank businesses which can be conducted in the form of electronic transactions via financial trading markets, such as interbank borrowing and lending, bonds held under resale agreements and bonds sold under repurchase agreements and certificates of interbank deposits, specialized departments may not entrust other departments or branches to handle them. For the interbank business which cannot be conducted in the form of electronic transactions via financial trading markets, specialized departments may entrust other departments or branches to conduct operations such as marketing and inquiry, project initiation and customer relationship maintenance. The specialized departments, however, must approve the counterparty, amount, term, pricing and contract on a case-by-case basis, and shall be responsible for centralizing accounting treatment and assuming full risk control accountability. Commercial banks shall establish a sound management system for the license of interbank businesses, improve the credit management policies and the counterparty entry system.

Electronic Banking

On January 26, 2006, the CBRC issued the Administrative Measures Regulating the Electronic Banking Business* (電子銀行業務管理辦法) and Security Evaluation Guidelines on Electronic

Banking* (電子銀行安全評估指引) in an effort to enhance risk management and security standards in this sector. Banking financial institutions are allowed to engage in electronic banking business upon the approval from the CBRC. All banking financial institutions applying to establish electronic banking business are required to have sound risk management and internal control systems and are not permitted to have any major accidents relating to their primary information management and operations processing systems in the year immediately prior to the submission of their application. In addition, all banking financial 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 issued the Notice on Enhancing the Management of Customer Information of Electronic Banking* (關於加強電子銀行客戶信息管理工作的通知) on August 9, 2011, which stresses the importance of commercial banks to be committed to the work concerning the security and confidentiality of customer information. Without customers' authorization, commercial banks may not directly or indirectly provide customers' sensitive information to third-party organizations. An electronic banking management department shall be specified by commercial banks for the electronic funds transfer and payment business in order to ensure the safe, stable and ongoing operations of the business.

On January 15, 2016, the State Council published the Plan for Promoting Inclusive Finance (2016-2020) 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 Card Business

On January 13, 2011, the CBRC promulgated the Supervisory and Administrative Measures Concerning Credit Card Business of Commercial Bank* (商業銀行信用卡業務監督管理辦法), which requires that commercial banks commencing their credit card business must satisfy certain requirements inclusive of obtaining prior approval from the CBRC, and having effective system for internal control, risk management and accountability. Commercial banks carrying out the credit card business shall disclose relevant information and business risks to their clients and establish a corresponding complaint handling mechanism.

Proprietary Investments

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

Derivatives

On February 4, 2004, the CBRC promulgated the Provisional Measures Concerning Management of Transactional Business of Derivatives of Financial Institutions* (金融機構衍生產品交易業務管理暫行辦法), which sets out the market admission requirements and the exhaustive regulations of risk management in relation to the derivatives business carried out by financial institutions. In accordance with the aforesaid measures, commercial banks applying for commencing derivatives business in the PRC shall comply with the relevant requirements of eligibility subject to the prior approval from the CBRC. In addition, certain additional regulations have been promulgated to further reinforce the risk management in respect of the derivatives business carried out by commercial banks in the PRC and the Provisional Measures Concerning Management of Transactional Business of Derivatives of Financial Institution were revised on July 3, 2007 and January 5, 2011 in succession.

On January 5, 2011, the CBRC promulgated the Interim Provisions Concerning Management of Transactional Business of Derivatives of Banking Financial Institutions* (銀行業金融機構衍生產品交易業務管理暫行辦法) to regulate the derivatives business of banking financial institutions and effectively control the risk of derivatives business of banking financial institutions. Such Measures require that banking financial institutions shall commence the transactional business of derivatives subject to the approval from the CBRC and the supervision and inspection by the CBRC.

On December 5, 2014, the SAFE promulgated the Notice of SAFE Concerning Adjustment to Administration Policy in relation to Admission by Financial Institutions to Interbank Foreign Exchange Market* (國家外匯管理局關於調整金融機構進入銀行間外匯市場有關管理政策的通知) to adjust the admission by domestic financial institutions to interbank foreign exchange market. Such Notice requires that a domestic financial institution may become a member of interbank foreign exchange market and accordingly commence the transactions of the RMB spot against foreign currency and the derivatives upon fulfillment of the conditions of operating technical criteria related to interbank market, after obtaining the eligibility for a current settlement and sale business subject to the approval from the SAFE and obtaining the eligibility for a transaction business of derivatives subject to the approval from the relevant financial regulatory authority.

Financial Innovations

On December 6, 2006, the CBRC issued the Guidelines on Financial Innovations of Commercial Banks* (商業銀行金融創新指引), the purpose of which is to encourage PRC commercial banks to engage in financial innovation-related activities on the basis of prudent operation, including developing new businesses and products, improving existing businesses and products, expanding scope of business and improving commercial banks' risk management of innovations. The CBRC has indicated that it will streamline approval procedures for financial innovations.

Internet Finance

On July 18, 2015, the PBOC, MIIT, Ministry of Public Security and other authorities jointly issued the Guiding Opinions on Facilitating the Healthy Development of Internet Finance* (關於促進互聯網金融健康發展的指導意見) to provide the following opinions to further promote financial reform and innovation, opening up and healthy development of Internet finance: (i) to encourage innovation and support the stable development of Internet finance; (ii) to give guidance pursuant to different classifications and specify the supervisory responsibilities of Internet finance activities; (iii) to establish a sound system to regulate the Internet finance market.

Personal Banking Account Services

On December 25, 2015, the PBOC issued the Circular of the PBOC concerning Improving Personal Banking Account Services and Strengthening Account Management* (中國人民銀行關於改進個人銀行賬戶服務加強賬戶管理的通知) to improve the service of personal RMB-settlement accounts, facilitate the convenient opening of accounts by depositors and usage of personal banking accounts, strengthen internal management of banks and practically implement the real-name system for personal account.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

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

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

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

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

						Housing provident fund loans	
Date of adjustment	**6 months or less**	**6 months to 1 year (inclusive)**	**Over 1 year to 3 years (inclusive)**	**Over 3 years to 5 years (inclusive)**	**Over 5 years**	**5 years or less**	**Over 5 years**
			(Annual interest rate: %)				
February 9, 2011	5.60	6.06	6.10	6.45	6.60	4.00	4.50
April 6, 2011	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 7, 2011	6.10	6.56	6.65	6.90	7.05	4.45	4.90
June 8, 2012	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 6, 2012	5.60	6.00	6.15	6.40	6.55	4.00	4.50
November 22, 2014	5.60	5.60	6.00	6.00	6.15	3.75	4.25
March 1, 2015	5.35	5.35	5.75	5.75	5.90	3.50	4.00
May 11, 2015	5.10	5.10	5.50	5.50	5.65	3.25	3.75
June 28, 2015	4.85	4.85	5.25	5.25	5.40	3.00	3.50
August 26, 2015	4.60	4.60	5.00	5.00	5.15	2.75	3.25
October 24, 2015	4.35	4.35	4.75	4.75	4.90	2.75	3.25

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

Date of adjustment	Demand deposit	Time deposits 3 months	6 months	1 year	2 years	3 years	5 years
	(Annual interest rate: %)						
February 9, 2011	0.40	2.60	2.80	3.00	3.90	4.50	5.00
April 6, 2011	0.50	2.85	3.05	3.25	4.15	4.75	5.25
July 7, 2011	0.50	3.10	3.30	3.50	4.40	5.00	5.50
June 8, 2012	0.40	2.85	3.05	3.25	4.10	4.65	5.10
July 6, 2012	0.35	2.60	2.80	3.00	3.75	4.25	4.75
November 22, 2014	0.35	2.35	2.55	2.75	3.35	4.00	N/A(1)
March 1, 2015	0.35	2.10	2.30	2.50	3.10	3.75	N/A
May 11, 2015	0.35	1.85	2.05	2.25	2.85	3.50	N/A
June 28, 2015	0.35	1.60	1.80	2.00	2.60	3.25	N/A
August 26, 2015	0.35	1.35	1.55	1.75	2.35	3.00	N/A
October 24, 2015	0.35	1.10	1.30	1.50	2.10	2.75	N/A

(1) Since November 22, 2014, the PBOC no longer publishes the benchmark interest rate for 5-year RMB-denominated time deposits.

Generally, the PBOC does not regulate the interest rates for loans or deposits in foreign currencies, except for PRC residents' deposits less than USD3 million (or equivalent in other foreign currencies) in USD, HKD, Japanese Yen or Euro with a term of one year or less, the upper limit of interest rate of which shall not exceed the benchmark interest rate of the PBOC. Effective from March 1, 2014, the upper limit of interest rate for foreign currency deposit with small amount was lifted in Shanghai Free Trade Zone. Effective from June 27, 2014, the upper limit of interest rate for foreign currency deposit with small amount was lifted in Shanghai.

According to the Notice of the People's Bank of China on Further Promoting the Reform of Interest Rate Liberalization* (中國人民銀行關於進一步推進利率市場化改革的通知) issued by the PBOC in July 2013, the bill discounting rate of commercial banks may be determined by commercial banks independently from July 20, 2013 onwards.

Pricing of Products and Services based on Fees and Commissions

The CBRC, PBOC and NDRC jointly issued the Notice on the Exemption of Certain Service Charges by Banking Financial 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, requiring banking financial institutions to exempt certain charges collectable for personal RMB accounts since July 1, 2011. In order to further standardize the charges collectable by banking financial institutions, the CBRC issued the Notice on Rectifying Improper Operations of Banking Financial Institutions* (關於整治銀行業金融機構不規範經營的通知) on January 20, 2012, prohibiting banking financial institutions from engaging in certain activities in charges collectable in the credit business and requiring banking financial institutions to make pricing more transparent. According to the Administrative Measures on Service Prices of Commercial Banks* (商業銀行服務價格管理辦法) issued jointly by the CBRC and NDRC on February 14, 2014, commercial banks shall apply market-adjusted prices except services with government guidance prices and government-set prices. Commercial banks shall make an announcement at least three months in advance according to the measures when increasing or setting new market-adjusted prices.

STATUTORY DEPOSIT RESERVE

Commercial banks are required to deposit certain portion of its total deposits with the PBOC as reserves, to make sure that there is adequate liquidity to meet the demand of clients for withdrawal and fund settlement. As of the Latest Practicable Date, our Bank is required by the PBOC to maintain no less than 16.5% of its total RMB deposits as deposit reserves.

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

Date of adjustment	Deposit reserve ratio (%)
January 20, 2011	19.0
February 24, 2011	19.5
March 25, 2011	20.0
April 21, 2011	20.5
May 18, 2011	21.0
June 20, 2011	21.5
December 5, 2011	21.0
February 24, 2012	20.5
May 18, 2012	20.0
February 5, 2015	19.5
April 20, 2015	18.5
June 28, 2015	18.5
September 6, 2015	18.0
October 24, 2015	17.0
March 1, 2016	16.5

SUPERVISION OVER CAPITAL ADEQUACY

Latest CBRC Supervisory Standards over Capital Adequacy Level

On February 23, 2004, the CBRC promulgated the Capital Adequacy Measures* (資本充足辦法) which came into force on March 1, 2004 and were amended on July 3, 2007.

Before January 1, 2013, our Bank needed to comply with the Capital Adequacy Measures which required a commercial bank to keep its minimum capital adequacy ratio at 8% and minimum core capital adequacy ratio at 4%.

On June 7, 2012, the CBRC promulgated the Capital Administrative Measures (Provisional). The Capital Administrative Measures (Provisional) have been in effect since January 1, 2013, under which the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of commercial banks shall not be lower than 5%, 6%, and 8%, respectively. The Capital Administrative Measures (Provisional) also revised the risk weighting of various assets and adjusted the composition of capital, and required commercial banks, before calculating capital adequacy ratio, make adequate provisions for various impairment losses (including those related to loans). The revisions have more stringent requirements for the capital adequacy level.

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

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

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

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

In the formulae mentioned above:

Total capital	including core tier-1 capital, additional tier-1 capital and tier-2 capital.
Tier-1 capital	including core tier-1 capital and additional tier-1 capital.
Core tier-1 capital	including paid-up capital or ordinary shares, capital reserves, surplus reserves, general risk reserves, undistributed profits and the part of minority shareholder’s capital that can be included.
Additional tier-1 capital	including additional tier-1 capital instrument and premium, and the part of minority shareholder’s capital that can be included.
Tier-2 capital	including tier-2 capital instrument and premium, excess loan losses provision and the part of minority shareholder’s capital that can be included.

Corresponding capital deductions	referring to the corresponding items of deductions when commercial banks calculate the capital adequacy ratios at each levels.
Risk-weighted assets	including credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.

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

Market risk-weighted asset is equivalent to 12.5 times of the required market risk capital. Calculation of market risk capital should cover interest rate risk and stock market risk of trading accounts of commercial banks, as well as all the exchange rate risks and commodity risks. Commercial banks can adopt standardized approach and internal models approach to measure the required market risk capital.

Operational risk-weighted asset should be 12.5 times of the required operational risk capital. Commercial banks can adopt basic indicator approach, standardized approach and advanced measurement approaches to measure the required operational risk capital.

When the credit risk-weighted assets are calculated by using the weighting approach under the Capital Administrative Measures (Provisional), the risk weightings of various assets are as shown in the following table.

Item	Risk weighting
a. Cash assets	
i. Cash	0%
ii. Gold	0%
iii. Placement of deposits with the PBOC	0%
b. Creditor's rights to central government and central banks	
i. Creditor's rights to the central government of PRC	0%
ii. Creditor's rights to the PBOC	0%
iii. Creditor's rights to central governments or central banks of countries or regions with ratings above AA- (AA- inclusive)(1)	0%
iv. Creditor's rights to central governments or central banks of countries or regions with ratings above A- (A- inclusive) and below AA-(1)	20%
v. Creditor's rights to central governments or central banks of countries or regions with ratings above BBB-(including BBB-) and below A-(1)	50%
vi. Creditor's rights to central governments or central banks of countries or regions with ratings above B-(B- inclusive) and below BBB-(1)	100%
vii. Creditor's rights to central governments or central banks of countries or regions with ratings below B-(1)	150%
viii. Creditor's rights to central governments or central banks of countries or regions with no rating	100%
c. Creditor's rights to public sector entities in China	20%

Item	Risk weighting
d. Creditor's rights to domestically incorporated financial institutions	
i. Creditor's rights to policy banks in China (excluding subordinated creditor's rights)	0%
ii. Creditor's rights to financial asset management companies invested by the central government of China	
1. Creditor's rights to bonds issued by financial asset management companies invested by the central government of China by way of private placements in order to purchase the non-performing loans of state-owned banks	0%
2. The other creditor's rights to financial asset management companies invested by the central government of China	100%
iii. Creditor's rights to other domestically incorporated commercial banks (excluding subordinated creditor's rights)	
1. Original term within 3 months (3 months inclusive)	20%
2. Original term over 3 months	25%
iv. Subordinated creditor's rights to other domestically incorporated commercial banks (part not deducted)	100%
v. Creditor's rights to other financial institutions in China	100%
e. Creditor's rights to financial institutions and public sector entities registered in other countries or regions	
i. Creditor's rights to commercial banks or public sector entities registered in countries or regions with ratings above AA- (AA- inclusive)[(1)]	25%
ii. Creditor's rights to commercial banks or public sector entities registered in countries or regions with ratings above A- (A- inclusive) and below AA-[(1)]	50%
iii. Creditor's rights to commercial banks or public sector entities registered in countries or regions with ratings above B-(B- inclusive) and below A-[(1)]	100%
iv. Creditor's rights to commercial banks or public sector entities registered in countries or regions with ratings below B-[(1)]	150%
v. Creditor's rights to commercial banks or public sector entities registered in countries or regions with no rating	100%
vi. Creditor's rights to multilateral development banks, Bank of International Settlement and International Monetary Fund	0%
vii. Creditor's rights to other financial institutions	100%
f. Creditor's rights to ordinary enterprises	100%
g. Creditor's rights to small and micro enterprises that meet certain criteria	75%
h. Creditor's rights to individuals	
i. Individual housing mortgage loan	50%
ii. The supplementary part of a supplementary financial facility by commercial banks secured by the re-evaluated net value of a mortgaged residence before the purchaser has paid up all the loans	150%
iii. Other creditor's rights to individuals	75%

Item	Risk weighting
i. The residual value of leasing assets	100%
j. Equities	
i. Equity investments in financial institutions (the part that was not deducted)	250%
ii. Equity investments passively held in industrial and commercial enterprises	400%
iii. Equity investments specially approved by the State Council in industrial and commercial enterprises due to policy reasons	400%
iv. Other equity investments in industrial and commercial enterprises	1,250%
k. Non-self-use real estate	
i. Non-self-use real estate possessed by exercising mortgage rights within the prescribed disposition period	100%
ii. Other non-self-use real estate	1,250%
l. Others	
i. Net deferred tax assets in reliance on future profit of banks (part not deducted)	250%
ii. Other on-balance-sheet assets	100%

(1) these ratings refer to credit rating of Standard & Poor's or other equivalent ratings.

Regulatory Requirements on Capital Adequacy Ratios

Regulatory requirements on capital adequacy ratios of commercial bank include minimum capital requirement, capital conservation requirement, counter-cyclical capital requirement, additional capital requirement of systemically important banks and capital requirement of the second pillar.

Commercial banks' capital adequacy ratios at each level should meet the following minimum requirements:

- capital adequacy ratio shall not be less than 8%;
- tier-1 capital adequacy ratio shall not be less than 6%; and
- core tier-1 capital adequacy ratio shall not be less than 5%.

Commercial banks should provision reserve capital on the basis of minimum capital requirement. Capital reserve requirements should be 2.5% of the risk-weighted assets, which is satisfied by core tier-1 capital. Under special circumstances, commercial banks should provision counter-cyclical capital based on the requirements of minimum capital and minimum reserve capital. The requirement of counter-cyclical capital is 0% to 2.5% of risk-weighted assets, which should be satisfied by core tier-1 capital.

In addition, domestic systemically important banks in China should also provision additional capital. The requirement of additional capital is 1% of risk-weighted assets, which should be satisfied by core tier-1 capital. If a domestic bank is identified as a global systemically important bank, the requirement of applicable additional capital shall be no lower than the unified regulations of the Basel Committee on banking supervision.

Meanwhile, the CBRC has the authority to put forward more prudent capital requirement under the framework of the second pillar, so as to ensure full coverage of risks by capital, including:

- specific capital requirement put forward with regard to specific parts of asset portfolio according to risk judgment; and

- specific capital requirement put forward with regard to specific single bank according to the supervision and inspection result.

Transition Period for Meeting the Requirements

The Capital Administrative Measures (Provisional) stipulate that commercial banks should meet the given regulatory requirement on capital adequacy ratio by the end of 2018. Qualified commercial banks are encouraged to meet the requirement in advance.

In order to ensure the successful implementation of the Capital Administrative Measures (Provisional), the CBRC issued the Notice on Arranging Related Matters in the Transitional Period of Carrying out Capital Management Measures 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) on November 30, 2012. According to the notice, commercial banks should reach the minimum capital requirement before January 1, 2013. Meanwhile, systemically important banks in China should also meet the requirement of additional capital. During the transitional period, capital conservation requirement (2.5%) should be applied gradually, and commercial banks should meet the schedule of annual capital adequacy requirement as follows:

		For the year ended/ending December 31					
Type of banks	**Item**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Systemically important banks	Core tier-1 capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Tier-1 capital adequacy ratio	7.5%	7.9%	8.3%	8.7%	9.1%	9.5%
	Capital adequacy ratio	9.5%	9.9%	10.3%	10.7%	11.1%	11.5%
Other banks	Core tier-1 capital adequacy ratio	5.5%	5.9%	6.3%	6.7%	7.1%	7.5%
	Tier-1 capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Capital adequacy ratio	8.5%	8.9%	9.3%	9.7%	10.1%	10.5%

Note: our Bank is in the category of "other banks" as indicated above.

Additionally, if the regulatory authority requires commercial banks to provision counter-cyclical capital, or requires a bank of the provision of second pillar capital, it shall give clear and definite term of reaching the standard in the meantime, and commercial banks should meet the requirement before the time limit stipulated.

Issuance of Capital Instruments for Capital Replenishment

According to the Management Measures on the Issuance of Subordinated Bonds by Commercial Banks* (商業銀行次級債券發行管理辦法) issued jointly by the PBOC and CBRC on June 17, 2004, commercial banks in China are permitted to issue bonds subordinated to other liabilities of the bank but senior to equity capital of the bank. Approved by the CBRC, commercial banks in China are allowed to include such subordinated bonds into their supplementary capital.

The Capital Administrative Measures (Provisional) issued on June 7, 2012 by the CBRC adjusted the definition of capital of commercial banks in the Capital Adequacy Measures (composed of core capital and supplementary capital) to one that is composed of core tier-1 capital, additional tier-1 capital and tier-2 capital; meanwhile, qualification standard of the tier-2 capital instruments, which is different from the original definitions and requirements of subordinated debts, subordinated bonds and hybrid capital bonds, was also put forward. According to the Capital Administrative Measures (Provisional), the unqualified tier-2 capital instruments issued by commercial banks before September 12, 2010 can be calculated into regulatory capital before January 1, 2013, and gradually decreases by 10% year by year from January 1, 2013. From January 1, 2022, it will not be allowed to be calculated into regulatory capital. For the tier-2 capital instruments issued from September 12, 2010 to January 1, 2013 by commercial banks, if no write-off or share-conversion clause is included while meeting other qualification standards for relevant capital instruments, it can be calculated into regulatory capital before January 1, 2013. However, it will gradually decrease by 10% year by year from January 1, 2013. From January 1, 2022, it will not be allowed to be calculated into regulatory capital.

The Guiding Opinions of the CBRC on Capital Instruments Innovation of Commercial Banks* (中國銀監會關於商業銀行資本工具創新的指導意見), issued on November 29, 2012 by the CBRC allowed and encouraged commercial banks to carry out capital instruments innovation (including tier-2 capital instruments) according to the Capital Administrative Measures (Provisional). In accordance with the Guiding Opinions, additional tier-1 capital instruments and tier-2 capital instruments issued by commercial banks after January 1, 2013 should carry clauses under which relevant tools will be written-off or converted into ordinary shares upon occurrence of the trigger events. Trigger events of additional tier-1 capital instruments refers to the reduction of core tier-1 capital adequacy ratio of commercial banks to 5.125% or below. Trigger events of tier-2 capital instruments refers to the following two events whichever is earlier: (i) the CBRC has determined that, if there is no write-down or share conversion, the commercial bank will not be able to survive, or (ii) relevant departments have determined that, if there is no capital injection or equivalent support from the public departments, the commercial bank will not be able to survive.

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

According to the Guiding Opinions on the Issuance of Preference Shares by Commercial Banks for Tier-1 Capital Replenishment* (中國銀行業監督管理委員會, 中國証券監督管理委員會關於商業銀行發行優先股補充一級資本的指導意見) jointly issued by the CBRC and CSRC on April 3, 2014, commercial banks were allowed to issue preference shares to replenish tier-1 capital. The issuance of preference shares by commercial banks shall comply with relevant requirements of the State Council and the CSRC, and meet the requirements regarding the capital replenishment instruments of the CBRC. In addition, the core tier-1 capital adequacy ratio shall meet the prudent regulatory requirements of the CBRC. The issuance of preference shares by commercial banks to replenish tier-1 capital shall comply with the Capital Administration Measures (Provisional) and meet the qualification standard regarding additional tier-1 capital instruments of the Guiding Opinions on Capital Instrument Innovation of Commercial Banks. Commercial banks shall apply to the CBRC (including its local offices) for the issuance and apply to the CSRC for the issuance after obtaining the CBRC's approval. The CSRC will review and approve the application according to the Administrative Measures on the Pilot Scheme of Preference Shares* (優先股試點管理辦法) and other regulations. Non-listed commercial banks applying for the issuance of preference shares shall apply for the listing of shares on the National Equities Exchange and Quotations System for public trading under the supervision of non-listed public companies in accordance with the CSRC's requirements.

CBRC Supervision over Capital Adequacy

The CBRC is responsible for supervision over the capital adequacy of banking financial institutions in China. Through on-site inspection and off-site supervision, the CBRC monitors and evaluates the capital adequacy status of banking financial institutions in China. Commercial banks should report unconsolidated capital adequacy ratio quarterly and consolidated capital adequacy ratio semi-annually to the CBRC.

According to the Capital Administrative Measures (Provisional), the CBRC divides commercial banks into the following four types in accordance with the capital adequacy situation and adopts relevant measures as described below:

Type	Capital adequacy situation	Measures of the CBRC
Type one	Capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio all meet the capital requirements at all levels.	• To require the commercial bank to improve the analysis of the reasons for the decrease of its capital adequacy ratio and the forecast of its capital adequacy ratio; • to require the commercial bank to formulate practicable management plan for capital adequacy ratio; and • to require the commercial bank to improve their abilities of risk control.
Type two	Capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio do not meet capital requirements of the second pillar, but not less than capital requirements at other levels.	• To adopt the regulatory measures applicable to Type one banks; • to carry out prudent discussion with the commercial bank's board of directors and senior management; • to issue supervision opinions, with the content as follows: the existing problems of commercial bank capital management, the corrective measures to be taken and the advice on meeting the requirements within the prescribed time limit; • to require the commercial bank to formulate practicable plans for capital replenishment and the plan for meeting the requirements within the prescribed time limit; • to increase the frequency of supervision and inspection over the capital adequacy of the commercial bank; and • to require the commercial bank to take risk mitigation measures with respect to specific risk areas.

Type	Capital adequacy situation	Measures of the CBRC
Type three	Capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio all meet the minimum capital requirement, but do not meet capital requirements at other levels.	• To adopt the regulatory measures applicable to Type one and Type two banks; • to restrict the commercial bank from distributing dividends and other income; • to restrict the commercial bank from granting any form of incentives to directors and senior management; • to restrict the commercial bank from making equity investments or repurchasing capital instruments; • to restrict the commercial bank from incurring major capital expenditure; and • to require the commercial bank to control the growth of risk assets.
Type four	Any of capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio fails to reach the minimum capital requirement.	• To adopt the regulatory measures applicable to Type one, Type two and Type three banks; • to require the commercial bank to significantly reduce the scale of the risk assets; • to order the commercial bank to stop conducting all high-risk asset business; • to limit or prohibit the commercial bank from establishing new institutions and launching new businesses; • to require banks to write-off tier-2 capital instruments or convert them to ordinary shares; • to order the commercial bank to change its directors, senior management or restrict their rights; • to lawfully take over or facilitate the reorganization of the commercial bank, until such measures are revoked; and • to consider other external factors and take other necessary measures in order to solve the problems faced by Type four commercial banks.

Introduction of New Leverage Requirements

On January 30, 2015, the CBRC issued the revised Administrative Measures on the Leverage Ratio of Commercial Banks (商業銀行槓桿率管理辦法) (the "Effective Measures for Leverage Ratio"), which came into effect on April 1, 2015. The measures require commercial banks to maintain a leverage ratio no lower than 4% irrespective of whether the financial statements are consolidated or not. The formula for calculating the leverage ratio is as follows:

$$\text{Leverage ratio} = \frac{\text{Tier-1 capital — deduction of tier-1 capital}}{\text{Adjusted asset balance on- and off- the balance sheet}} \times 100\%$$

Commercial banks should submit reports of leverage ratio regularly in accordance with the requirements of the CBRC and its local offices. And the reports of consolidated leverage ratio should be submitted semiannually while reports of unconsolidated leverage ratio should be submitted quarterly.

For the commercial banks which fail to meet the minimum leverage ratio, the CBRC and its local offices can take the following corrective measures: (i) requiring commercial banks to replenish tier-1 capital within a certain time limit; (ii) requiring commercial banks to control the growth rate of asset on- and off-the balance sheet; and (iii) requiring commercial banks to lower the size of asset on-and off-the balance sheet. If the commercial bank fails to remediate its non-compliance within the specified period, or its behavior has seriously endangered its sound operation or jeopardized the legitimate interests of depositors or other customers, the CBRC and its local offices may take the following measures pursuant to the PRC Banking Supervision and Regulation Law under different circumstances: (i) ordering the commercial bank to suspend certain business and withhold approval for the commencement of new business; (ii) restricting the distribution of dividends and other income; (iii) withholding approvals for the establishment of new branches; (iv) ordering the controlling shareholders to transfer interest or restrict the rights of relevant shareholders; (v) ordering restructuring of the board of directors or senior management or imposing restrictions on their rights; and (vi) taking other measures stipulated by law. In addition to the above measures, the CBRC may also impose an administrative penalty on the commercial bank.

The Effective Measures for Leverage Ratio specifies that, systemically important banks are required to meet the minimum regulatory requirements thereunder since the date on which the measures were implemented (April 1, 2015), and other banks shall meet the minimum regulatory requirements of the measures by the end of 2016.

Basel Accords

The Basel Capital Accord (also known as Basel I) is a capital measurement system of commercial banks introduced by the Basel Committee in 1988. Basel I requires banks to carry out the framework of credit risk measurement, and set the minimum capital adequacy ratio as 8%. Since 1998, Basel Committee has released a number of amendments, to replace Basel I with Basel II. The Basel II retains major elements of Basel I, which includes requirements that banks should maintain total capital at least 8% of the risk weighted assets. However, it attempts to improve the capital structure from all principal aspects, including (i) the establishment of the "three-pillar" framework, namely "minimum capital requirements" as the first pillar, "supervisory review" as the second pillar and "market discipline" as the third pillar; and (ii) substantially revised the calculation method of capital adequacy ratio. In response to the deficiencies in financial regulation revealed by the 2008 financial crisis, the Basel Committee started to advance the global financial regulatory reform in an effort to further strengthen the regulation, supervision and risk management of the banking industry. Under such circumstances, Basel III was drafted and then endorsed by G20 Seoul Summit in November 2010. On December 16, 2010, Basel III was officially issued by the Basel Committee. Basel III enhances micro-prudential regulation and supervision and adds a macro-prudential overlay. These two supervisory approaches are complementary, and reduces the risk of system shock through enhancing the risk resilence of individual bank. In summary, Basel III (i) enhances the regulatory requirements on capital resources, risk weighted assets and capital quality etc., (ii) introduces leverage ratio to supplement capital adequacy ratio regulatory requirements, (iii) introduces liquidity coverage ratio and net stable funding ratio, and continues to enhance liquidity risk supervision of commercial banks.

The Capital Adequacy Measures was issued on February 23, 2004 and revised on July 3, 2007 by the CBRC. The CBRC pointed out that the Capital Adequacy Measures was formulated on the basis of Basel I, with reference from Basel II in many aspects. In March 2009, China officially joined the Basel Committee, and began to participate in the formulation of the international standards for banking supervision. It was conducive to improving the level and skill of China's banking supervision.

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* (中國銀行業監督管理委員會關於中國銀行業實施新監管標準的指導意見), which set out the key targets and principles for the reform of China's banking capital regulatory framework. On June 1, 2011, the CBRC promulgated the Administrative Measures on the Leverage Ratio of Commercial Banks. On June 7, 2012, the CBRC issued the Capital Administrative Measures (Provisional). The Capital Administrative Measures (Provisional) came into effect on January 1, 2013 and superseded the Capital Adequacy Measures. On July 19, 2013, the CBRC issued the following four policy documents to complement the Capital Administrative Measures (Provisional): 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 Q&As regarding the Capital Supervisory Policy* (資本監管政策問答) in an effort to enhance the effectiveness of capital supervision, improve the risk management capacity of commercial banks and strengthen the functions of market discipline.

In January 2013, Basel Committee published the Third Edition of the Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools (第三版巴塞爾協議流動性覆蓋率和流動性風險監測標準). On January 17, 2014, the CBRC issued the Management Measures on the Liquidity Risk of Commercial Banks (Provisional)* (商業銀行流動性風險管理辦法(試行)), revising the regulatory requirements on liquidity. In January 2014, Basel Committee issued the Revised Basel III Leverage Ratio Framework and Disclosure Requirements (第三版巴塞爾協議槓桿率框架和披露要求), further revising the international rules of the leverage ratio. Based on the new rules of Basel Committee on leverage ratio, in 2015, the CBRC amended the Administrative Measures on the Leverage Ratio of Commercial Banks, which was promulgated on June 1, 2011 (i.e., the Effective Measures For Leverage Ratio), putting forward clearer and stricter requirements on leverage ratio disclosure by commercial banks.

LOAN CLASSIFICATION, ALLOWANCE 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." The main factors of evaluating the possibility of repayments include the cash flows, financial condition and other non-financial factors that affect the loan repayment ability of borrowers.

Loan Loss Allowance

According to the Guidelines of Risk-based Classification of Loans, loans categorized as substandard, doubtful or loss would be regarded as non-performing loan, and commercial banks are required to make provisions based on a reasonable estimate of the probable loss on a prudent and timely basis.

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

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

Supervision of the CBRC over Loan Classification and Loan Loss Allowance

Commercial banks are required formulate detailed internal procedures and clearly specify relevant departments' responsibilities in works including loan classification, examination, approval, review. and other relevant works. In addition, commercial banks shall regularly submit quarterly reports and annual reports of loan classification and loan loss allowance to the CBRC. Based on examination on the above-mentioned reports, the CBRC can require commercial banks to explain any major changes of their loan classification and loan loss provision level, or conduct further investigations. According to the Administrative Measures for Loan Loss Allowance of Commercial Banks, for commercial banks failing to reach regulatory standards of loan loss allowance for three consecutive months, the CBRC may give them risk warning and propose request rectification. For commercial banks failing to meet regulatory standards for six consecutive months, the CBRC may apply certain supervisory measures based on the PRC Banking Supervision and Regulation Law.

Loan Write-offs

According to the regulations promulgated by the CBRC, PBOC and MOF, commercial banks should establish strict loan loss write-off audit and approval system. Loans that fail to meet the standards stipulated by the MOF are not allowed to be written-off. The loss from the loan write-offs is tax deductible, subject to review and approval by the tax authorities.

Bulk Transfer of Non-performing Assets

On January 18, 2012, the MOF and CBRC issued the Management Measures on the 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), under which financial enterprises can make bulk transfer of the non-performing credit assets and non-credit assets formed during the process of operation. Assets that can be transferred mainly include: substandard, doubtful and loss loans identified according to the stipulated standards, written-off account recorded assets, mortgage assets and other non-performing assets.

Allowance and Statutory General Reserve for Impairment Loss

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.

DEPOSIT DEVIATION AND DEPOSIT INSURANCE

Deposit Deviation

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

Deposit Insurance System

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

OTHER RISK MANAGEMENT RATIOS

The Core Indicators (Provisional) issued by the CBRC came into force on January 1, 2006.

The table below sets forth, for the periods indicated and as of dates indicated, the ratios of our Bank calculated in accordance with the required ratios as provided in the Core Indicators (Provisional), other relevant regulatory requirements and applicable accounting standards.

				Rate of our Bank(%)			
				As at or for the year ended December 31,			As at or for the three months ended March 31,
Risk level	**First grade indicator**	**Secondary indicator**	**Requirement (%)**	**2013**	**2014**	**2015**	**2016**
Risk level							
Liquidity risk	Liquidity ratio[1]		≧25	51.28	43.66	33.96	49.38
	Core liabilities ratio[2]		≧60	75.11	72.58	65.36	73.57
	Liquidity gap ratio[3]		≧-10	-83.70	-60.17	-83.16	12.30
	Loan-to-deposit ratio[4]		≦75	28.67	32.32	39.20	39.60
Credit risk	Non-performing asset ratio[5]		≦4	0.20	0.29	0.41	0.33
		NPL ratio[6]	≦5	0.51	0.64	0.80	0.81
	Credit exposure to a single group customer[7]		≦15	152.47	115.78	74.42	74.32
		Loan exposure to a single customer[8]	≦10	151.52	114.87	73.70	72.80
	Total credit exposure to related parties[9]		≦50	0.00	0.00	0.01	0.02
Market risk	Cumulative foreign currency exposure ratio[10]		≦20	0.05	0.06	6.68	6.52
Risk compensation							
Profitability	Cost-to-income ratio[11]		≦45	65.6	60.9	60.7	61.1
	Return on assets[12]		≧0.6	0.57	0.55	0.51	0.67[14]
	Return on equity[13]		≧11	23.19	19.80	15.20	18.44[14]
Allowance adequacy	Allowance adequacy ratio for impairment losses on assets[15]		>100	241.81	313.80	N/A	N/A[17]
		Allowance adequacy ratio for impairment losses on loans[16]	>100	439.11	482.67	N/A	N/A[17]

Calculated as follows:

(1) Liquidity ratio = current assets / current liabilities × 100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions due within one month, interest receivables or other payment receivables due within one month, eligible loans due within one month, bond investments due within one month, bond investments able to be liquidated at any time in domestic or international secondary market and other assets able to be liquidated within one month (excluding non-performing potion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), fixed time deposits due within one month (excluding fiscal deposits), net placement and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interests payables and all kinds of payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

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

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

(4) Loan-to-deposit ratio = total loans to customers/total customer deposits × 100%. On August 29, 2015, the Standing Committee of the NPC promulgated the Decision of the Standing Committee of the National People's Congress on Amending the PRC Commercial Banking Law (the "Decision"). According to the Decision, effective from October 1, 2015, the maximum loan-to-deposit ratio of 75% stipulated under the PRC Commercial Banking Law was revoked and relevant provisions on the penalties for non-compliance with the aforementioned loan-to-deposit ratio imposed by the banking regulatory authorities of the State Council were also abolished.

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

(6) Non-performing loan ratio = total non-performing loans/total loans × 100%. Loans are classified into five categories in accordance with the Guiding Principles on Risk-based Classification of Loans (貸款風險分類指導原則) and relevant regulations. Loans refer to assets financed by the banking financial institutions to borrowers in the form of monetary fund, which mainly include loans, trade finance, bill financing, financial leasing, assets acquired from non-financial institutions under resale agreements, overdrafts and all kinds of advances.

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

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

(9) Total credit exposure to related parties = total granted credit limit to all related parties/net capital × 100%. Related parties refer to parties defined under the Administrative Measures on Related Party Transactions with Insiders and Shareholders of Commercial Banks and relevant regulations. Total granted credit limit to all Related Parties refers to total credit balance granted to such parties minus the total security deposit from the Related Parties and bank deposits and PRC government bonds pledged.

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

(11) Cost-to-income ratio = operating expense (excluding business tax and surcharges)/operating income × 100%.

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

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

(14) On an annualized basis.

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

(16) Allowance adequacy ratio for impairment losses on loans = Actual amount of allowance for loans/required amount of allowance for loans × 100%.

(17) According to the Notice of China Banking Regulatory Commission on 2015 Off-site Regulatory Report (中國銀監會關於2015年非現場監管報表的通知), the CBRC no longer monitors the two indicators of allowance adequacy ratio for impairment losses on assets and allowance adequacy ratio for impairment losses on loans from January 1, 2015.

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

Our liquidity gap ratios as of December 31, 2013, December 31, 2014 and December 31, 2015 did not meet the relevant requirements under in the Core Indicators (Provisional), mainly because of seasonal factors, our deposits due within 90 days increased, leading to an increase in liabilities due within 90 days. Our credit exposure to a single group customer and loan exposure to a single customer as of December 31, 2013, 2014 and 2015 and March 31, 2016 did not meet the above regulatory requirements. China Railway Corporation is our largest group customer and largest single customer. The special finance loans we extended to China Railway Corporation were approved by the CBRC. Our return on assets ratio as of December 31, 2013, 2014 and 2015 did not meet the above regulatory requirements, mainly because compared with other more developed Large Commercial Banks, we are still in growing stage with a fast rate of expansion, the operational cost and the operational efficiency are still subject to further promotion, as a result, we have a relatively lower return on assets. Our cost-to-income ratio as of December 31, 2013, 2014 and 2015 and March 31, 2016 did not meet the above regulatory requirements. We have taken the initiative to adopt measures to reduce the cost-to-income ratio. The Core Indicators (Provisional) has not specified any penalties for non-compliance with the risk management ratio as set out therein. As set out in the Core Indicators (Provisional), the core indicators do not constitute a direct basis for administrative penalties, unless otherwise specified in laws, administrative regulations and regulatory rules. Our non-compliance with the Core Indicators (Provisional) in the past has not resulted in and is not expected to result in any penalties imposed on us or any material adverse impacts on our financial position in other respects. In addition, failing to satisfy the liquidity gap ratio does not necessarily lead to any direct and material liquidity risks. Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (Provisional) issued by the CBRC on January 17, 2014, which became effective on March 1, 2014, core liabilities ratio and liquidity gap ratio are no longer regulatory indicators.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

Corporate Governance

The PRC Company Law, the PRC Commercial Banking Law, and other laws, regulations and regulatory documents have made clear requirements for corporate governance of commercial banks. The Guidelines on the Corporate Governance issued by the CBRC on July 19, 2013 requires that commercial banks shall establish comprehensive corporate governance system and have clear governance structures. The management and supervision powers, functions and responsibilities of the board of directors, the board of supervisors and the senior management shall be clarified. The guidelines also require commercial banks to abide by the principles of independent operation, effective checks and balances, mutual cooperation and coordinated operation of various governance entities, establish reasonable incentive and restraint mechanisms and achieve rationality and efficiency in decision-making, execution and supervision.

As for the composition of the board of directors, according to the Guidelines on the Performance 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, commercial banks which have a registered capital above RMB1 billion shall appoint at least three independent directors. As for the composition of the Board of Supervisors, according to the Guidelines on the Performance of the Board of Supervisors of Commercial Banks issued by the CBRC* (商業銀行監事會工作指引), each of the proportion of staff supervisors and external supervisors of commercial banks shall not be lower than one third. In addition, the Guidelines on Independent Director and External Supervisor System of Joint-stock Commercial Banks* (股份制商業銀行獨立董事和外部監事制度指引) stipulates that there should be at least two independent directors in the board of directors and at least two external supervisors in the board of supervisors of commercial banks. According to the Evaluation Measures on the Performance of Directors of Commercial Banks (Provisional)* (商業銀行董事履職評價辦法(試行)), commercial banks shall conduct evaluation for the performance of directors based on laws, regulations and relevant rules. Based on the Guidelines on the Supervision of Steady Compensation of Commercial Banks* (商業銀行穩健薪酬監管指引), commercial banks shall establish compensation mechanisms in line with personnel training and risk control.

Internal Control

According to the Internal Control Guidelines for Commercial Banks* (商業銀行內部控制指引) issued on July 3, 2007 and amended on September 12, 2014, commercial banks are required to establish internal control to ensure effective risk management for their business activities. Commercial banks should put in place internal control management and organizational structures with reasonable and clear assignment of responsibility and reporting relationship between board of directors, board of supervisors, senior management, and internal control, internal audit and operational departments. Commercial banks should also designate specialized department as function department of internal control management, taking a leading role in coordinating and organizing internal control systems and in evaluating the systems.

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

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.

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

Information Disclosure Requirements

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

Related Party Transactions

The Administrative Measures on Related Party Transactions with Insiders and Shareholders of Commercial Banks* (商業銀行與內部人和股東關聯交易管理辦法) issued by the CBRC on April 2, 2004 provide stringent and detailed requirements on the related party transactions of PRC commercial banks and require PRC commercial banks to follow the principles of honesty and fairness in conducting related party transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties. Related party transactions of commercial banks are required to be based on commercial principles and on terms no more favorable than similar transactions with non-related parties. These measures set out detailed provisions on the definition of a related party, the form and content of a related party transaction as well as the procedures and principles which must be followed for related party transactions. Pursuant to these measures, commercial banks must submit to 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 may take actions against the bank and/or the related parties, including ordering rectification of the non-compliance, imposing limitations on shareholders' rights, ordering transfer of shares, ordering change of directors or senior management and imposing fines.

RISK MANAGEMENT

Since its inception, the CBRC has published, in addition to guidelines concerning granting loan and credit to certain specific industries and customers and measures in respect of implementing of

Basel Accords, numerous risk management guidelines and rules including operational risk management, market risk management, compliance risk management, liquidity risk management, information technology risk management and supervisory rating system, in an effort to improve the risk management of PRC commercial banks. For the guidelines concerning loans and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, see "— Regulation on Major Business of Commercial Banks — Loans" and "— Supervision over Capital Adequacy — Basel Accords." The CBRC also issued the Core Indicators (Provisional) as a basis of supervising the risk management of PRC commercial banks. The CBRC establishes requirements for certain ratios relating to risk levels and risk provisions in the Core Indicators (Provisional) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. See "— Other Risk Management Ratios." The CBRC periodically collects data through off-site supervision to analyze such indicators and evaluate and issue early warnings of the risks on a timely basis.

Operational Risk Management

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

On May 14, 2007, the CBRC issued the Guidelines on Operational Risk Management of Commercial Banks* (商業銀行操作風險管理指引) to enhance the risk management abilities of the PRC commercial banks. As required by the guidelines, a commercial bank shall establish an operational risk management system suitable for its nature, scale and complexity of business so as to effectively identify, assess, monitor and control/mitigate operational risks. The operational risk management system shall include at least the following basic elements: 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 provisions of operational risks. Management policies and procedures for operational risk management of commercial banks are required to be submitted to the CBRC for filing. Commercial banks shall submit reports related to operational risks to the CBRC or its local offices in accordance with the provisions. If a significant operational risk occurs and the commercial bank fails to adopt effective corrective measures within a specified period, the CBRC may 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 to strengthen the market risk management of PRC commercial banks. These guidelines address: (i) the responsibilities of the board of directors and the senior management in supervising market risk management; (ii) the policies and procedures for market risk management; (iii) the detection, quantification, monitoring and control of market risk; (iv) the responsibilities for internal control and external audits; and (v) appropriate capital allocation mechanism for market risks. Under these guidelines, commercial banks are required to formulate official policies and procedures in writing in respect of the management of market risks which apply to the whole bank.

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

Compliance Risk Management

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

Liquidity Risk Management

On September 2, 2015, the CBRC issued the amended Management Measures on the Liquidity Risk of Commercial Banks (Provisional), which 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 strategies, policies and procedures of liquidity risk management; (iii) the identification, measurement, supervision and control of liquidity risk; and (iv) the calculation methods of liquidity coverage ratio and liquidity ratio, and it is also stipulated that the PRC commercial banks' liquidity coverage ratios must reach 100% by the end of 2018. However, the regulatory requirement of liquidity coverage ratio does not apply to commercial banks with assets of less than RMB200 billion. According to the Management Measures on the Liquidity Risk of Commercial Banks (Provisional), the CBRC should apply regulatory requirement indicators for liquidity risk and monitoring reference indicators in its supervision and management of the liquidity risk level and liquidity risk management of commercial banks. Among them, liquidity coverage ratio and liquidity ratio are regulatory requirement indicators for liquidity risk, while liquidity gap ratio and core liabilities ratio are monitoring reference indicators. The CBRC should continuously monitor the changing status of the loan-to-deposit ratio of commercial banks. When the loan-to-deposit ratio of the commercial bank fluctuates significantly, quickly or continues to change in the same direction, the CBRC should timely find out the reason, analyze the corresponding risk exposure, and carry out risk alerts or request the commercial bank to adopt relevant measures when it is necessary. When the loan-to-deposit ratio of the commercial bank fluctuates significantly, quickly or continues to change in the same direction, it should find out the reason, analyze the corresponding change of risk exposure, and report to the CBRC in a timely manner.

Information Technology Risk Management

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

On February 16, 2013, the CBRC issued the Regulatory Guidelines for 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 regulate the information technology outsourcing activities of banking financial institutions, so as to reduce the information technology outsourcing risk.

On September 3, 2014, the CBRC issued the Guiding Opinions on the Use of Secure and Controllable Technology to Strengthen Internet Security and Information System Construction of Banks* (關於應用安全可控信息技術加強銀行網絡安全和信息化建設的指導意見). The opinions require banking financial institutions to (i) improve information technology governance structure, (ii) strengthen 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 issued guidelines in relation to several other risks management, including the Guidelines on Reputational Risk Management of Commercial Banks* (商業銀行聲譽風險管理指引), the Guidelines on Bank Account Interest Risk Management of Commercial Banks* (商業銀行銀行賬戶利率風險管理指引), the Guidelines on the Management of Outsourcing Risks of Banking Financial Institutions* (銀行業金融機構外包風險管理指引), and the Guidelines on Country Risk Management of Banking Financial Institutions* (銀行業金融機構國別風險管理指引), all in an effort to strengthen commercial banks' risk management capacity in relevant fields.

Supervisory Rating System

On December 30, 2005, the CBRC issued the Internal Guidelines on Supervisory Ratings for Commercial Banks (Provisional)* (商業銀行監管評級內部指引(試行)). All commercial banks 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 ratio, asset quality, management quality, profitability, liquidity and exposure to market risk and other indicators 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

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

On June 5, 2015, the CBRC issued the amended Measures for the Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks* (中資商業銀行行政許可事項實施辦法). An application of PSBC 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 receipt, examination and decision of the CBRC. The modification of shareholders holding more than 1% but less than 5% of the total amount of capital or shares of PSBC shall be reported to the CBRC within 10 days after the share transfer.

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

Restrictions on Shareholders

The Guidelines on the Corporate Governance impose additional requirements on shareholders of commercial banks. For example, shareholders, especially substantial shareholders, are required to support the capital plans 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 such commercial bank fails to meet the regulatory requirements within such specified period of time, it is required to decrease the dividend pay-out proportion or even stop paying dividends, and the capital is required to be replenished by means of increasing core capital. Under such circumstances, substantial shareholders cannot obstruct the capital injection by other shareholders or the participation of new qualified shareholders. If shareholders of a PRC commercial bank fail to repay outstanding loans extended by the bank when due, their voting rights at shareholders' meeting and their appointed directors' voting rights at board meeting will be restricted.

In addition, the PRC Company Law and relevant CBRC rules impose certain restrictions on the ability of a commercial bank's shareholders to pledge their shares. For example, a commercial bank may not accept its own shares as collateral. The Guidelines on the Corporate Governance stipulates: (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 for himself or others as collateral; and (ii) where the balance of loans extended by a commercial bank to its shareholder exceeds the audited net value of his or her shares in such bank for the preceding year, the shareholder cannot pledge his or her shares in the bank.

Pursuant to the Notice of CBRC on Strengthening the Management of Equity Pledge of Commercial Banks (Yin Jian Fa [2013] No. 43) (《中國銀監會關於加強商業銀行股權質押管理的通知》(銀監發[2013]43號)), commercial banks are required to strengthen their management of pledge of their shares by shareholders. If a shareholder with a seat of director or supervisor of the bank, or a shareholder (or shareholders) who, directly, indirectly, jointly holds or controls more than 2% of the bank's shares or voting rights would pledge the shares of such bank, such shareholder is required to apply for filing to the board of directors of the bank. Such filings will not be approved if the board of directors determines that such pledges would have material adverse effect on shareholding stability, corporate governance, control for risk and related party transactions of the bank. The director(s) nominated by such shareholder must abstain from voting at the meeting of the board of directors at which such pledge proposal is considered. If the pledged shares reach or exceed 50% of the bank's shares owned by the shareholder, the voting rights of such shareholder in shareholders' general meeting or the voting rights of the director(s) designated by such shareholder in the meeting of the board of directors will be subject to restrictions.

ANTI-MONEY LAUNDERING REGULATION

The PRC Anti-Money Laundering Law* (中華人民共和國反洗錢法), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including participating in the formulation of the anti-money laundering rules and regulations for financial institutions, and requires financial institutions to establish sound internal control systems regarding anti-money laundering.

On November 14, 2006, the PBOC issued the Anti-Money Laundering Regulations for Financial Institutions* (金融機構反洗錢規定). Commercial banks are required to establish an internal anti-money laundering procedure and either establish an independent anti-money laundering department or designate a relevant department to implement their anti-money laundering procedures. On the same day, 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). PRC commercial banks are required to report the transactions to the Anti-money Laundering Monitoring and Analysis Center upon the detection of any suspicious transactions or transactions involving large amounts. Where necessary and pursuant to appropriate judicial proceedings, PRC commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBOC supervises and conducts on-site inspections of commercial banks' compliance with its anti-money laundering regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-Money Laundering Law and Anti-Money Laundering Regulations for Financial Institutions.

On June 21, 2007, the PBOC, CBRC, CSRC and CIRC jointly promulgated the Measures on the Administration of Client Identity Identification and Record Keeping of Clients' ID Data and Transaction of Financial Institutions* (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法). Commercial banks are required to establish a customer identification system, record the identities of all customers and the information relating to each transaction, and keep personal transaction records and documents.

On November 15, 2014, the PBOC issued 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)). The PBOC is required to establish a regular anti-money laundering information reporting system for financial institutions and financial institutions are required to report anti-money laundering related information to the PBOC and actively cooperate with the PBOC and its branches in supervisory inspections.

OTHER REQUIREMENTS

Use of Funds

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

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

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

Requirements for Regular Submission of Relevant Reports

On October 20, 2006, the CBRC issued the Notice on the Official Operation of Off-site Supervision Information System in 2007* (關於非現場監管信息系統2007年正式運行的通知). Banking financial 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. Among the statements required to be submitted by our Bank, the statistical table of balance sheet items, the off-balance sheet transaction statement, the statement of the allowance for the impairment loss of assets, the liquidity ratio statement, the statement of loans to large, medium, small and micro enterprises and other similar information are required to be submitted on a monthly basis; the income statement, the leverage ratio statement, the capital adequacy ratio summary statement, the loan quality movement statement, the statistical table of the liquidity horizon gap, the liquidity coverage ratio and net stable funding ratio statement, the statistical table of loans to key industries, the bond issue and investment statement, the statistical table of real estate loan risk monitoring and other similar information are required to be submitted on a quarterly basis; the interest rate repricing risk statement, the statement of the ten largest deposit customers and other similar information are required to be submitted on a semi-annual basis.

OUR HISTORY

Postal savings business in China has a history of nearly one hundred years, which can be traced back to its establishment in 1919. Pursuant to the PRC Postal Law, postal enterprises[1] may provide postal savings and postal remittance services. The operation of finance business by postal savings institutions became subject to banking regulations and supervision under the Interim Measures on the Administration of Business of Postal Savings Institutions* (郵政儲蓄機構業務管理暫行辦法) promulgated in 2004. Approved by the CBRC and the MOF, our predecessor, Postal Savings Bank of China Limited* (中國郵政儲蓄銀行有限責任公司), was established on March 6, 2007. On January 21, 2012, Postal Savings Bank of China Limited was converted into Postal Savings Bank of China Co., Ltd. with the consent of the State Council and approval of the CBRC and the MOF. After nine years of sound and rapid development, we have become a leading retail bank in China with the largest distribution network and customer base and superior asset quality.

KEY MILESTONES

The key milestones of our establishment and development are set out as follows:

Year	Event
2007	Postal Savings Bank of China Limited* was established in the PRC.
	We launched micro loan business, entering retail credit business.
2008	All of our 36 tier-1 branches were established.
	We issued our first credit card.
	We launched personal business loan and personal consumer loan business.
	We entered into an agreement with GIZ, pursuant to which both parties jointly established a dedicated team of "Micro Loans and Retail Banking Business Project" and carried out relevant cooperation.
2009	We launched corporate proprietary loan business.
	We launched the business of corporate loans to small enterprises.
	The cumulative amount of micro loans we extended exceeded RMB100 billion, which is a significant breakthrough of our personal loan business.
2010	We launched online banking services for retail customers.
	We commenced cash management services for corporate customers, which further diversified our corporate banking products and services.

1 Refer to China Post Group and the enterprises providing postal services which are wholly owned or are controlled by China Post Group.

Year	Event
2011	Our cross-bank transaction success rate reached 99.765%, ranking first among 15 nationwide commercial banks for the first time, proving the quality of operation of our information system had reached a new height.
	We initiated nationwide Wealth Creation Competition to support individual entrepreneurs and small and micro enterprises through an integrated service platform of financing, brand promotion, technical support and communication of business models.
2012	We were converted into a joint stock limited liability company from a limited liability company.
	Our tier-1 branches were authorised to engage in corporate credit business, which was a significant breakthrough of our corporate business.
	We launched cross-border Renminbi settlement business.
	We started to provide mobile banking services.
2013	Our balance of corporate loans to small enterprises exceeded RMB100 billion.
	We successfully hosted "The 16th Session of the Postal Savings Banks Forum of the World Savings and Retail Banking Institute" with the theme of "Commercially Sustainable Inclusive Financial Services."
2014	We published the Inclusive Finance Report. As the first specialized report on the topic of inclusive finance in China's banking industry, our report discussed comprehensively the development of inclusive finance theories in China and our experience in this area.
	The number of our electronic banking customers exceeded 100 million, making us the fifth commercial bank with over 100 million electronic banking customers in the PRC.
	The balance of our personal deposits exceeded RMB5 trillion, making us the fourth commercial bank with over RMB5 trillion of personal deposits balance in the PRC.
	We successfully launched "2014 Youyuan First Residential Mortgage — Backed Security (RMBS)" which was the first domestic mortgage-backed securitization product since the relaunch of asset securitization in the PRC.
	Our assets reached RMB6,298 billion, ranking fifth among the PRC commercial banks for the first time.
2015	We introduced ten Strategic Investors, namely, UBS, China Life, China Telecom, CPPIB, Ant Financial, JPMorgan, FMPL, IFC, DBS Bank and Shenzhen Tencent.
	Our subsidiary, PSBC Consumer Finance, was established, demonstrating our further expansion of comprehensive operations.

Year	Event
	We published monthly small and micro enterprises operation indices exclusively in the industry, which has become an important reference for the decision-making of governmental departments.
	We were ranked 23rd in *The Banker's* "Top 1000 World Banks" in terms of total assets as of December 31, 2014.
2016	We were ranked 22nd in *The Banker's* "Top 1000 World Banks" in terms of total assets as of December 31, 2015.
	We established the Sannong Finance Department.

CHANGES IN OUR REGISTERED CAPITAL AND CONVERSION INTO A JOINT STOCK LIMITED LIABILITY COMPANY

The changes in our registered capital and conversion into a joint stock limited liability company are summarized below:

2007	Postal Savings Bank of China Limited was established with a registered capital of RMB20 billion and was solely funded by China Post Group.
2009	Our registered capital increased to RMB30 billion after the injection of RMB10 billion by China Post Group.
2010	Our registered capital increased to RMB41 billion after the injection of RMB11 billion by China Post Group.
2012	As approved by the CBRC and the MOF, Postal Savings Bank of China Limited was converted into Postal Savings Bank of China Co., Ltd. Our registered capital was RMB45 billion upon incorporation as a joint stock limited liability company, with China Post Group as our promoter holding 100% of our Shares.
2014	Our registered capital increased to RMB47 billion after the injection of RMB2 billion by China Post Group.
2015	Our registered capital increased to RMB57 billion after the injection of RMB10 billion by China Post Group.
2016	Our registered capital increased to RMB68.604 billion after we introduced ten Strategic Investors. See "— Introduction of Strategic Investors" and "Our Strategic Investors" for details.

BOND ISSUANCE

As approved by the CBRC and the PBOC, we issued the first tranche of tier-2 capital bonds of 2015 with a principal amount of RMB25.0 billion in September 2015. The term of the bonds was 10 years with a coupon rate of 4.5%. See "Assets and Liabilities — Liabilities and Sources of Funds — Other Components of Our Liabilities" for details.

INTRODUCTION OF STRATEGIC INVESTORS

In December 2015, we introduced ten Strategic Investors, namely UBS, China Life, China Telecom, CPPIB, Ant Financial, JPMorgan, FMPL, IFC, DBS Bank and Shenzhen Tencent. We issued an aggregate of 11,604 million new Shares to the ten Strategic Investors that made investments in an aggregate amount of approximately RMB45,140 million and hold in aggregate approximately 16.92% of our issued share capital before the completion of the Global Offering. Upon completion of the investments by Strategic Investors, our registered capital increased to RMB68.604 billion. We have also entered into Strategic Cooperation Agreements with Strategic Investors and/or their related parties. For details of our Strategic Investors and our strategic cooperation with the Strategic Investors, see "Our Strategic Investors."

OUR SUBSIDIARY

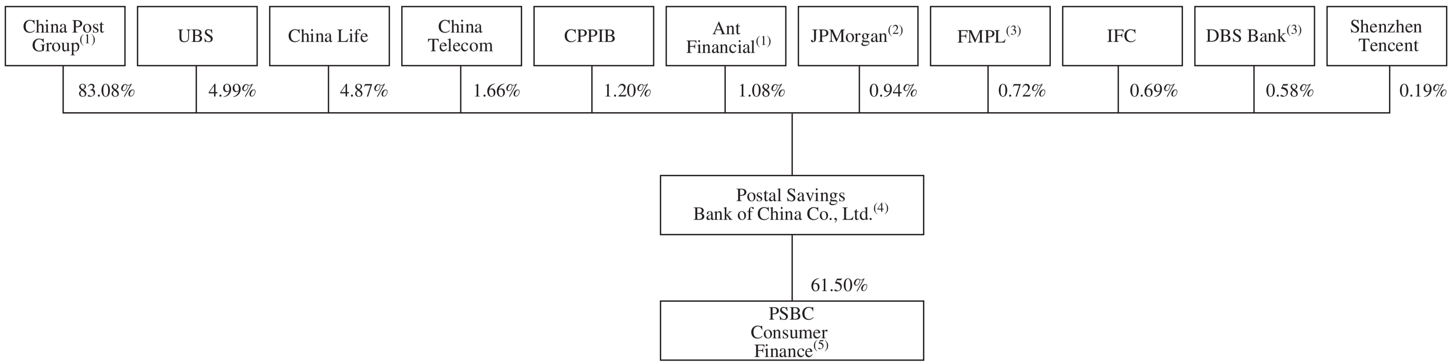
PSBC Consumer Finance

PSBC Consumer Finance was established in the PRC on November 19, 2015. As of the Latest Practicable Date, the registered capital of PSBC Consumer Finance amounted to RMB1.0 billion and we held 61.5% of its equity interest. The business scope of PSBC Consumer Finance includes: offering personal consumer loans; accepting the deposits of the shareholders' domestic subsidiaries and domestic shareholders; borrowing from domestic financial institutions; issuing financial bonds upon approval; domestic interbank lending; advisory and agency businesses relating to consumer finance; agency sales of insurance products relating to consumer loans; fixed-income securities investment business.

As of the Latest Practicable Date, PSBC Consumer Finance was our only subsidiary.

OUR SHAREHOLDING STRUCTURE

The following chart sets out our shareholding and corporate structure immediately prior to the Global Offering:



(1) As of the Latest Practicable Date, Beijing Post Investment Center (Limited Partnership)* (北京中郵投資中心(有限合夥)) held 1% of the equity interest of Ant Financial. 23.76%, 18.71%, 9.25% and 0.05% of the subscribed contribution of Beijing Post Investment Center (Limited Partnership) were held by China Post Capital Management Limited* (中郵資本管理有限公司), Beijing China Post Asset Management Co., Ltd.* (北京中郵資產管理有限公司), Xiamen China Post Hengchang Investment Partnership Enterprise (Limited Partnership)* (廈門中郵恒昌投資合夥企業(有限合夥)), and China Post Dingtai (Beijing) Equity Investment Management Co., Ltd.* (中郵鼎泰(北京)股權投資管理有限公司), respectively. 45.71% and 0.5% of the subscribed contribution of Xiamen China Post Hengchang Investment Partnership Enterprise (Limited Partnership) were held by China Post Capital Management Limited and China Post Dingtai (Beijing) Equity Investment Management Co., Ltd, respectively. China Post Group holds 100% of the equity interest of Beijing China Post Capital Management Limited and China Post Asset Management Co., Ltd. China Post Capital Management Limited holds 100% of the equity interest of China Post Dingtai (Beijing) Equity Investment Management Co., Ltd..

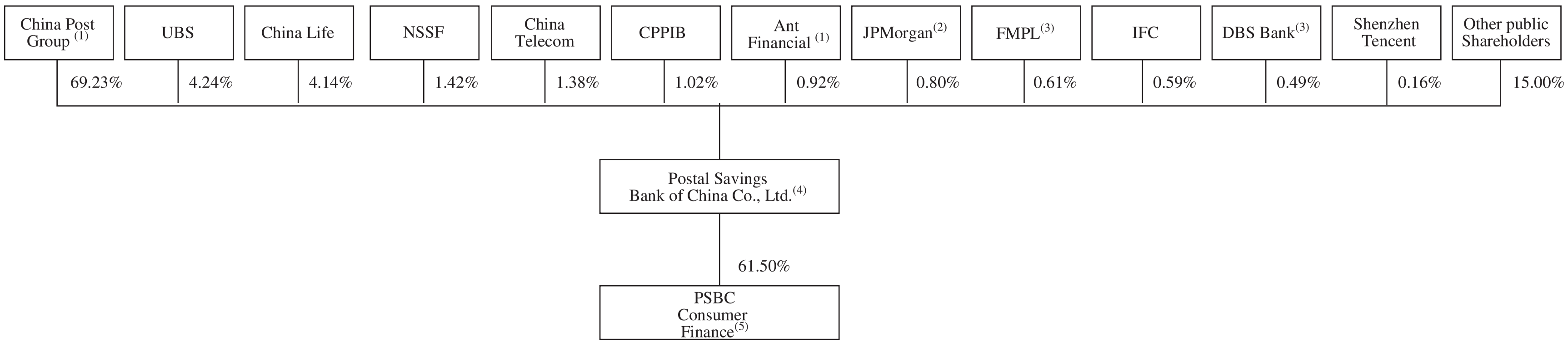
(2) As of the Latest Practicable Date, JPMorgan held our equity interest through its indirectly wholly-owned subsidiary, JPMorgan CICII.

(3) As of the Latest Practicable Date, FMPL was a wholly-owned susbsidiary of Temasek. Meanwhile, as of the Latest Practicable Date, Temasek had a direct and deemed interest in approximately 29% of the issued shares in DBS Group Holdings Limited which owns 100% of DBS Bank.

(4) As of March 31, 2016, our Bank consists of the head office and 8,597 branches and sub-branches. Branches and sub-branches consist of 36 tier-1 branches, 319 tier-2 branches, 2,085 tier-1 sub-branches and 6,157 tier-2 sub-branches and others (among which 8,301 are outlets). See "Business — Distribution Channels" for more details.

(5) As of the Latest Practicable Date, we held 61.5% of the equity interest of PSBC Consumer Finance, while DBS Bank, Bohai International Trust Co., Ltd. (渤海國際信托股份有限公司) ("Bohai Trust"), Lakala Network Technology Co., Ltd.* (拉卡拉網絡技術有限公司) ("Lakala"), Guangzhou Grandbuy Co., Ltd. (廣州廣百股份有限公司) ("Grandbuy"), Guangdong Highsun Group Co., Ltd. (廣東海印集團股份有限公司) ("Highsun") and Guangdong Sangem Group Company Limited* (廣東三正集團有限公司), ("Guangdong Sangem") held 12%, 11%, 5%, 3.5%, 3.5% and 3.5% of the remaining equity interest, respectively. Bohai Trust, Lakala, Grandbuy, Highsun and Guangdong Sangem are independent third parties.

The following chart sets out our shareholding and corporate structure immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised):



(1) As of the Latest Practicable Date, Beijing Post Investment Center (Limited Partnership) held 1% of the equity interest of Ant Financial. 23.76%, 18.71%, 9.25% and 0.05% of the subscribed contribution of Beijing Post Investment Center (Limited Partnership) were held by China Post Capital Management Limited, Beijing China Post Asset Management Co., Ltd., Xiamen China Post Hengchang Investment Partnership Enterprise (Limited Partnership), and China Post Dingtai (Beijing) Equity Investment Management Co., Ltd., respectively. 45.71% and 0.5% of the subscribed contribution of Xiamen China Post Hengchang Investment Partnership Enterprise (Limited Partnership) were held by China Post Capital Management Limited and China Post Dingtai (Beijing) Equity Investment Management Co., Ltd, respectively. China Post Group holds 100% of the equity interest of Beijing China Post Capital Management Limited and .China Post Asset Management Co., Ltd. China Post Capital Management Limited holds 100% of the equity interest of China Post Dingtai (Beijing) Equity Investment Management Co., Ltd.

(2) As of the Latest Practicable Date, JPMorgan held our equity interest through its indirectly wholly-owned subsidiary, JPMorgan CICII.

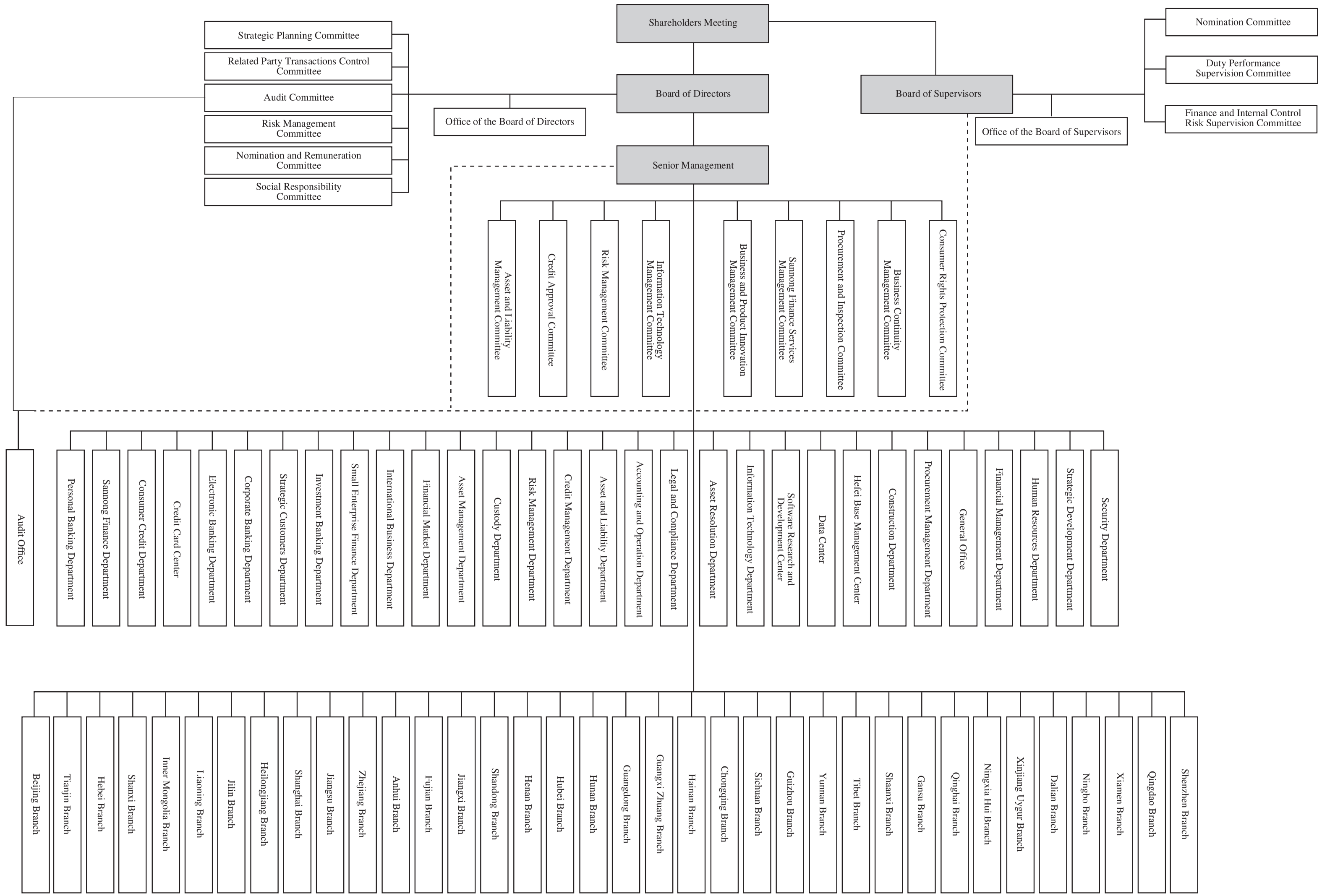
(3) As of the Latest Practicable Date, FMPL was a wholly-owned subsidiary of Temasek. Meanwhile, as of the Latest Practicable Date, Temasek had a direct and deemed interest in approximately 29% of the issued shares in DBS Group Holdings Limited which owns 100% of DBS Bank.

(4) As of March 31, 2016, our Bank consists of the head office and 8,597 branches and sub-branches. Branches and sub-branches consist of 36 tier-1 branches, 319 tier-2 branches, 2,085 tier-1 sub-branches and 6,157 tier-2 sub-branches and others (among which 8,301 are outlets). See “Business — Distribution Channels” for more details.

(5) As of the Latest Practicable Date, we held 61.5% of the equity interest of PSBC Consumer Finance, while DBS Bank, Bohai Trust, Lakala, Grandbuy, Highsun and Guangdong Sangem held 12%, 11%, 5%, 3.5%, 3.5% and 3.5% of the remaining equity interest, respectively. Bohai Trust, Lakala, Grandbuy, Highsun and Guangdong Sangem are independent third parties.

OUR ORGANIZATIONAL AND MANAGEMENT STRUCTURE

The following chart sets forth our organizational and management structure as of the Latest Practicable Date:



OVERVIEW

We have entered into share subscription agreements and investor rights agreements with each of the Strategic Investors[1] and completed relevant transactions as of the end of 2015, and completed the registration of changes in shareholding with the administration for industry and commerce in March 2016. Meanwhile, we have entered into the Strategic Cooperation Agreements and established strategic cooperation arrangements with each of the Strategic Investors and/or its affiliates before the Closing Date (as defined in the relevant share subscription agreements, being December 17, 2015) in order to promote business development and enhance corporate governance standards of our Bank.

STRATEGIC INVESTMENT

Share Subscription

The table below sets out the basic information of the strategic investments.

	UBS	China Life	China Telecom	CPPIB	Ant Financial	JPMorgan[2]	FMPL	IFC	DBS Bank[3]	Shenzhen Tencent
Date of the share subscription agreements	September 9, 2015	December 8, 2015	November 27, 2015	September 9, 2015	September 8, 2015	September 8, 2015	September 8, 2015	September 9, 2015	September 9, 2015	September 15, 2015
Number of Shares subscribed	3,423,340,000	3,341,900,000	1,140,270,000	822,150,000	738,820,000	642,670,000	493,570,000	474,290,000	398,460,000	128,530,000
Subscription amount (RMB)	13,316,792,600	12,999,991,000	4,435,650,300	3,198,163,500	2,874,009,800	2,499,986,300	1,919,987,300	1,844,988,100	1,550,009,400	499,981,700
Closing Date	December 17, 2015									
Basis of consideration	The relevant consideration was determined on an arm's length basis with reference to the business valuation of our Bank and the asset appraisal conducted pursuant to the relevant requirements of the asset management of state-owned financial enterprises.									
Price per Share	RMB3.89									
Discount to the Initial Public Offering (as defined in the relevant investor rights agreements) price[4]	8.27%									
Use of proceeds	The proceeds from the investment of the Strategic Investors totaled RMB45,139.56 million (converted at the exchange rate as of the Closing Date), which have been used for increasing capital in full.									
Shareholding in our Bank prior to the Global Offering	4.99%	4.87%	1.66%	1.20%	1.08%	0.94%	0.72%	0.69%	0.58%	0.19%
Shareholding in our Bank after the Global Offering (assuming that the Over-allotment Option is not exercised)[5]	4.24%	4.14%	1.38%	1.02%	0.92%	0.80%	0.61%	0.59%	0.49%	0.16%
Strategic effect on the Company	Enhancing capital strength; improving corporate governance; learning from successful experience; expanding business areas.									

(1) JPMorgan and JPMorgan CICII jointly entered into share subscription agreement and investor rights agreement with us.

(2) JPMorgan holds the shares through its indirectly wholly-owned subsidiary, JPMorgan CICII.

(3) As of the Latest Practicable Date, Temasek has a direct and deemed interest in approximately 29% of the issued shares in DBS Group Holdings Limited which owns 100% of DBS Bank.

(4) The discount is calculated based on the indicative price of HK$4.93 per H Share (being the mid-point of the range of the Offer Price as stated in this prospectus) and the indicative exchange rate of HK1.00000=RMB0.86019.

(5) The shareholding proportion is determined based on (1) 12,106,588,000 H Shares issued under the Global Offering before the exercise of the Over-allotment Option; and (2) after taking into account the transfer of state-owned Shares held by China Post Group and China Telecom to NSSF.

Our Strategic Investors

UBS

As one of the leading diversified financial institutions globally, the UBS footprint covers major financial centres globally with around 900 offices worldwide in more than 50 countries, providing wealthy, institutional and corporate clients, as well as private clients in Switzerland with superior financial advice and solutions, including wealth management, asset management and investment banking services.

UBS Wealth Management is the largest wealth management institution globally, with over 150 years of history. As of March 31, 2016, total invested assets within UBS Wealth Management business amounted to around CHF2.0 trillion.

UBS is one of the world's top financial advisors and investment banks. UBS Investment Bank has over 5,000 professionals in more than 30 countries.

UBS Asset Management is one of the largest asset managers in the world with invested assets amounted to CHF628 billion as of March 31, 2016.

UBS' total assets amounted to around CHF968 billion as of March 31, 2016. UBS is a wholly-owned subsidiary of UBS Group AG, and the shares of UBS Group AG are listed on the SIX Swiss Exchange and the New York Stock Exchange.

China Life

China Life (a company listed on the Hong Kong Stock Exchange (Stock Code: 2628)) is the largest life insurance company in China and a leading provider of individual and group life insurance, annuity products and accident and health insurance in China. It has an extensive insurance distribution network in China, comprising insurance sales, group insurance sales personnel, professional and part-time agents. With strong product research and development and innovation capabilities, China Life is able to continuously enrich its insurance products and services. China Life operates its investment in a highly professional way and is one of the largest institutional investors in China.

China Telecom

China Telecom is one of the three leading telecommunication operators in China, and it has repeatedly been named as one of the Global 500 Companies by the *Fortune* and was awarded, among others, "Asia's Most Admired Company" and "Asia's Best Managed Company" by international authoritative institutions for consecutive years. As an integrated information services provider, China Telecom provides customers with integrated information solutions including products such as mobile communications, broadband Internet access, information technology applications and landline telephone.

China Telecom is a controlling shareholder of 3 listed companies, i.e., China Telecom Corporation Limited (a company listed on the Hong Kong Stock Exchange (Stock Code: 00728) and the New York Stock Exchange (Ticker: CHA)), China Communications Services corporation Limited (a company listed on the Hong Kong Stock Exchange (Stock Code: 00552)) and Besttone Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange (Stock Code: 600640)).

China Telecom has set up offices in 31 provinces, autonomous regions and municipalities in China, as well as in major countries in Europe, United States, Asia-Pacific and other regions. It has the world's largest broadband Internet network and leading technology in mobile communications network, with the ability to provide cross-border and fully-integrated comprehensive information services capabilities and a customer service channel infrastructure for its global customers.

CPPIB

CPPIB is a professional investment management organization that invests the funds not needed by the Canada Pension Plan to pay current benefits on behalf of 19 million contributors and beneficiaries. In order to build a diversified portfolio of CPP assets, CPPIB invests in public equities, private equities, real estate, infrastructure and fixed income instruments. CPPIB is headquartered in Toronto, with offices in Hong Kong, London, Luxembourg, Mumbai, New York City and São Paulo.

Ant Financial

Ant Financial relies on Internet, cloud computing and big data technology to provide inclusive financial services to small- and micro-sized enterprises, individual entrepreneurs and ordinary consumers. The business sub-segments under Ant Financial include: Alipay, Yuebao* (餘額寶), Ant Fortune (螞蟻聚寶), Ant Check Later (螞蟻花唄), Sesame Credit (芝麻信用), Ant Financial Cloud (螞蟻金融雲), Antsdaq (螞蟻達客), etc.

Mr. Jack Ma controls a majority of the voting rights in Ant Financial.

JPMorgan

JPMorgan (JPMorgan Chase & Co.; NYSE: JPM) is a leading global financial services firm with assets of US$2.5 trillion and operations worldwide.

JPMorgan is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management.

A component of the Dow Jones Industrial Average, JPMorgan serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands.

JPMorgan is incorporated in the United States, and holds our shares through one of its indirectly wholly-owned subsidiaries, JPMorgan CICII.

The shares of JPMorgan are listed on the New York Stock Exchange.

Information about JPMorgan is available at www.jpmorganchase.com.

FMPL

FMPL is a wholly-owned subsidiary of Temasek.

Incorporated in 1974, Temasek is an investment company based in Singapore. Temasek is an active investor and shareholder. Temasek's investment portfolio covers a broad spectrum of industries, which include: telecommunications, media & technology; financial services; transportation & industrials; consumer & real estate; life sciences & agriculture; energy & resources. Its investment themes reflect Temasek's perspectives on long term trends: Transforming Economies; Growing Middle Income Populations; Deepening Comparative Advantages; and Emerging Champions.

Temasek's major investments in financial institutions include China Construction Bank Corporation, Industrial and Commercial Bank of China Limited, Ping An Insurance (Group) Company of China, Ltd, DBS Group Holdings Ltd and Standard Chartered PLC.

IFC

IFC is a member of the World Bank Group as well as an international organization established in 1956 pursuant to its Articles of Agreement, and has 184 member states. The objective of IFC is to promote economic growth of its developing member states through investing in productive enterprises, while enhancing and building the capacity of investees through provision of advisory services.

IFC operates in a number of countries globally and has invested in various banks and other financial institutions in the world. It provides a full range of financial products and advisory services to financial customers, including preferred debt, equity, subordinated debt, guarantees, trade finance and advisory services in the area like Green Finance, MSME (micro, small and medium-sized enterprises), ARF (Agriculture, Rural and Farmer) and digital finance. IFC aims to promote MSME and the healthy development of the financial system as a whole through investing in financial intermediaries, thereby promoting the stability and sustainable development of financial markets.

DBS Bank

DBS Bank is a leading financial services group in Asia, with over 280 branches in 18 markets. Headquartered in Singapore, DBS Bank has a growing presence in three key Asian axes of growth, namely, Greater China, Southeast Asia and South Asia.

DBS Bank provides comprehensive financial services in retail banking, small and medium-sized enterprise banking and corporate banking in Asia. With deep insights of the Asian market and close links with regional business networks, DBS Bank is growing rapidly to become Asia's premier bank. Its "AA-" and "Aa1" credit ratings are one of the highest among institutions in Asia.

DBS Bank has its roots as the Development Bank of Singapore, which played a key role in the industrialisation of Singapore. It also has an extensive Asian network, and has an extensive suite of treasury, cash and trade products.

DBS Bank is a wholly-owned subsidiary of DBS Group Holdings Ltd (a company listed on the Singapore Exchange (Stock Code: D05)).

Shenzhen Tencent

Shenzhen Tencent is a member of the Tencent Group. Tencent Group is principally engaged in Internet related businesses, where businesses involved mainly include computer and online games, web portals, video website and social networking websites or communications etc. Tencent Group is currently one of China's largest Internet value added service providers, as well as one of the Internet enterprises with the most service users in China.

Shenzhen Tencent is a wholly-owned subsidiary of Tencent Holdings Limited (a company listed on the Hong Kong Stock Exchange (Stock Code:700)).

As each of our Strategic Investor Shareholders will hold less than 10% of the total issued share capital of our Bank immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), none of our Strategic Investor Shareholders will be a substantial shareholder of our Bank upon the Listing and consequently be a connected person of our Bank. Accordingly, except for DBS Bank, a substantial shareholder of our subsidiary, PSBC Consumer Finance, and therefore our core connected person, all the H Shares held by UBS, CPPIB, JPMorgan CICII, FMPL and IFC shall be counted as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

Rights and Obligations of the Strategic Investor Shareholders

According to the share subscription agreements and investor rights agreements, the rights and obligations of the Strategic Investor Shareholders include the following:

Dividends

The Strategic Investor Shareholders shall not be entitled to any profit generated between January 1, 2015 (inclusive) and the Closing Date, being December 17, 2015 (exclusive), or any dividend or other distribution declared or paid in respect of such profit. If we declare or pay dividends or other distributions with respect to the then-outstanding ordinary Shares for any period (the "Dividend Period") commencing on a date between January 1, 2015 and the Closing Date and ending on a date (the "Dividend Period End") on or after the Closing Date, the Strategic Investor Shareholders shall be entitled to receive, for each ordinary Share, only a portion of such dividend. The numerator of such portion shall be the number of days between the Closing Date and the Dividend Period End, and the denominator of which shall be the number of days in the Dividend Period. No dividends may be declared in respect of profit for the period between January 1, 2015 (inclusive) and the Closing Date in an aggregate amount greater than RMB9.0 billion.

Anti-Dilution Right and Price Protection

Subject to PRC law and any applicable legal, regulatory or stock exchange requirements, in connection with our issuance of any new ordinary Shares (the "Additional Ordinary Shares") or securities convertible to or exercisable for Additional Ordinary Shares (such securities together with the Additional Ordinary Shares, the "Additional Securities"), but excluding Excluded Issuance (as defined in the relevant investor rights agreements) and any issuance pursuant to the Contemporaneous Investments (as defined in the relevant investor rights agreements), from and after the Closing Date and until but excluding the completion of the Initial Public Offering, each Strategic Investor Shareholder shall have the right to purchase such number of Additional Securities that would cause its percentage of ownership interest in us (on an as-converted basis) prior to our issuance to remain the same immediately after our issuance.

Upon the earlier of (i) the completion of the Initial Public Offering, but excluding the completion date of the Initial Public Offering and (ii) the date falling after the fourth anniversary of the Closing Date, in the event of the issuance of the aforementioned Additional Securities, but excluding the Initial Public Offering and certain Excluded Issuance, where the price per share in such additional Shares (the "Subsequent Offering Price Per Share") is below the subscription price per Share paid by the Strategic Investor Shareholders (or which may have been adjusted in the event of share subdivision and consolidation and reclassification and adjustment of nominal value, the distribution of dividends or other distributions or bonus issue or rights issue of the ordinary Shares and certain events (the "Adjusted Subscription Price Per Share")), following the completion of such new issuance, we shall pay the Strategic Investor Shareholders in the form of a cash payment in RMB that equals the product of (A) the difference between the Adjusted Subscription Price Per Share and the Subsequent Offering Price Per Share multiplied by (B) the number of Shares subscribed by each Strategic Investor Shareholder under the applicable share subscription agreement, such that the Adjusted Subscription Price Per Share, so as adjusted, will not exceed the Subsequent Offering Price Per Share.

Prior to the completion of the Global Offerring, there will not be any issuance of the Additional Securities by the Bank, and as such the price protection mechanism will not be triggered.

No More Favorable Terms

We undertake that we will not issue or agree to issue any ordinary Shares to any person other than Strategic Investor Shareholders on terms more favorable than those selected terms as agreed upon by the parties thereto on the issuance of ordinary Shares set out in the share subscription agreements, the investor rights agreements and the Strategic Cooperation Agreements prior to or at the same time as the Closing Date.

Director Representatives

UBS shall have the right to nominate one candidate for election to the Board as our non-executive director if the total number of ordinary Shares held by UBS is not less than 5% of our total number of outstanding ordinary Shares. We shall take all corporate action permitted under PRC

Law to procure such individual to be duly elected to serve as a member of the Board, subject to the rules and regulations of the Articles of Association and PRC Law, provided that such individual shall meet the qualification requirements set out under the PRC Law and be reasonably acceptable to the Board. Such rights of UBS shall terminate upon completion of the Initial Public Offering.

Transfer Restrictions

Prior to the lock-up end date (as specified below), without our written consent, the Strategic Investor Shareholders shall not, and shall cause their respective affiliates not to, transfer to any person, any part or all of the Shares, any of our securities acquired by the Strategic Investor Shareholders under the relevant share subscription agreements or through the anti-dilution right or any ordinary Shares issued to the Strategic Investor Shareholders pursuant to the relevant investor rights agreements (collectively, the "Covered Securities"). The lock-up end date refers to the third anniversary of the Closing Date, unless there has been an Initial Public Offering prior to such date, in which case the lock-up end date shall be the later of (i) the first anniversary of the completion of the Initial Public Offering and (ii) the third anniversary of the Closing Date.

For the term of the relevant investor rights agreements, without our written consent, the Strategic Investor Shareholders shall not, and shall cause their respective affiliates not to, transfer any Covered Securities to a Major Direct Competitor (as defined in the relevant investor rights agreements) or to any person that the Strategic Investor Shareholders know to be an affiliate of a Major Direct Competitor, provided that the foregoing shall not restrict the Strategic Investor Shareholders or its affiliates from selling any Covered Securities in open-market or block trade transactions after the listing in which the identity of the purchaser(s) cannot be determined or controlled by the Strategic Investor Shareholders or their respective affiliates or a placement agent or a broker who assists the Strategic Investor Shareholders or their respective affiliates in such sale (unless the Strategic Investor Shareholders or such placement agent or broker actually knows that such purchaser is a Major Direct Competitor or its affiliate).

Notwithstanding any provision to the contrary, subject to the provisions set forth in the immediate foregoing paragraph, the Strategic Investor Shareholders shall be entitled to transfer all or any part of our Shares held by them in specified circumstances to, including but not limited to: (1) the specified affiliates of the Strategic Investor Shareholders, provided that certain conditions are met; or (2) any successor of the Strategic Investor Shareholders as the result of a merger, amalgamation or other bona fide business combination of the Strategic Investor Shareholders with any other non-shell entity or any entity controlled by a non-shell entity; (3) in the event the Strategic Investor Shareholders are required by applicable laws or regulations to transfer any of our Covered Securities, the Strategic Investor Shareholders may transfer such number of Covered Securities to one or more eligible third parties accepted by us, and we undertake to facilitate such permitted transfer, or (4) in the event we are in serious violation of certain applicable laws under the relevant share subscription agreements and investor rights agreements and that no remedial measures have been made within an agreed period of time, certain Strategic Investor Shareholders may transfer all of the Covered Securities to one or more eligible third parties accepted by us (such acceptance not to be unreasonably withheld).

Orderly Transfers

Strategic Investor Shareholders shall, (a) subject to applicable laws and applicable securities laws, use commercially reasonable efforts to ensure that each transfer of the Covered Securities made by them or any of their respective affiliates is completed with a view to facilitating an orderly market in the ordinary Shares, and (b) inform us with prior written notice in accordance with the terms of the relevant investor rights agreements.

Conversion of Shares of the Strategic Investor Shareholders

If we seek an Initial Public Offering outside the PRC, we shall use commercially reasonable efforts to assist the Strategic Investor Shareholders and/or their affiliates, if the Strategic Investor Shareholders so request, to apply for and obtain approvals from the relevant PRC governmental entities and convert all of our ordinary Shares held by such Strategic Investor Shareholders and/or their affiliates into overseas listed foreign invested shares, subject to the approvals of the relevant regulatory authorities.

Provision of Information

We shall furnish to the Strategic Investor Shareholders certain information within the agreed period, including but not limited to, quarterly and half-year period management accounts and annual audited consolidated financial statements or management accounts. Concurrent with the delivery of any reports, communications or documents to the holders of ordinary Shares by virtue of their status as holders of ordinary Shares, copies of the same shall be provided to the Strategic Investors.

Such rights of the Strategic Investor Shareholders shall terminate upon completion of the Initial Public Offering.

Termination of Provisions Impairing the Initial Public Offering

To the extent that any rights of the Strategic Investor Shareholders conflict with, or would cause us to be in violation of, the applicable securities laws or the applicable listing rules of any eligible exchange or may otherwise impede our ability to achieve a listing or public offering, such rights shall terminate immediately prior to the listing of our ordinary Shares on such eligible exchange or such other time as specified by the securities regulator or the eligible exchange.

In accordance with Guidance Letter HKEx-GL43-12, all the special rights of the Strategic Investor Shareholders described above shall terminate on the Listing Date.

Based on relevant arrangements under the aforesaid share subscription agreements and investor rights agreements and as the transactions relating to the share subscription agreements and the investor rights agreements have been completed at least 28 complete days prior to our Initial Public Offering application to the Hong Kong Stock Exchange, the Joint Sponsors consider that the relevant transactions meet the requirements of the Interim Guidance on Pre-IPO Investments, Guidance Letter HKEx-GL43-12 and Guidance Letter HKEx-GL44-12.

STRATEGIC COOPERATION[1]

While we signed the share subscription agreements with the Strategic Investor Shareholders, we also entered into separate Strategic Cooperation Agreements with each of the Strategic Investors and/or their affiliates for the term as specified in their respective Strategic Cooperation Agreements, and established strategic cooperation relationships with them. We are actively exploring to implement relevant cooperation details set out in the relevant Strategic Cooperation Agreements with the Strategic Investors.

According to the Strategic Cooperation Agreements, in order to more effectively implement the strategic cooperation, we have established or will establish a steering committee, liaison office and working group with some of the Strategic Investors whereby relevant departments or groups will establish information communication and consultation mechanism to formulate and execute annual cooperation plans. The main responsibility of the steering committee is to discuss and review overall strategies and objectives for strategic cooperation, annual cooperation plans and the progress of cooperation. The liaison office is responsible for routine coordination and other relevant matters of liaison and cooperation between the relevant parties. The working groups established for each area of cooperation are responsible for the deliverables of each specific matter of cooperation.

Scope of Cooperation with Strategic Investors

Strategic Planning

According to the Strategic Cooperation Agreements, under applicable circumstances, where applicable and practicable, Strategic Investors will support our strategic planning with necessary assistance and advice, share their relevant experience on establishment of its own strategic planning system, and the implementation, monitoring and appraisal system of strategic planning, improving middle-and-long term performance appraisal systems, and help analyze the implementation of our strategic plans, and provide specific advice to optimize strategic planning and resource allocation policies.

Corporate Governance

According to the Strategic Cooperation Agreements, under applicable circumstances, where applicable and practicable, Strategic Investors will support our corporate governance with the necessary assistance, consultation and suggestions through training on specific topics, seminars, forum and other consultation methods and share best practices and experience in areas such as

[1] There may be differences in the forms of cooperation between our Bank and each of the Strategic Investors in the same area of business. For the avoidance of any doubt, the description of the cooperation in each area of business by the Strategic Investors is a combined summary of the cooperation between our Bank and such Strategic Investors and does not mean each of such Strategic Investors will conduct all forms of cooperation mentioned therein in such line of business.

corporate governance structure, management of investor relations, operational mechanism of the board of directors and special committees, corporate structure, internal auditing and internal control, to assist our establishment of a corporate structure that meets international best practice standards.

Cooperation in Major Businesses

Retail Finance Business

JPMorgan may, under applicable circumstances, where applicable and practicable, cooperate with us in retail finance business, which includes organizing workshops and providing us with trainings in relation to retail finance, retail client data analytics and credit management approaches and methodologies, to assist us in carrying out retail financial product research and development and innovation, carrying out customer behavior and preferences analyses, and to help us implement product lifecycle management and customer lifecycle management. Relevant expert advice may be provided to support the business development, risk management, product research and development, marketing, system architectures and implementation, the establishment of database and its application, the operation and processing of our credit card business, to assist us in enhancing our capabilities in the credit card business.

FMPL will, under applicable circumstances, where applicable and practicable, utilize its relevant resources to assist us to assess the current state of and gaps in personal loans and micro, small and medium-sized enterprise loans business, to help identify potential areas of improvement based on practical experience in China and abroad, to provide proposals of overall business planning and the establishment of credit factory, and assist us in segmenting market for customers and carrying out re-engineering process.

IFC will, under applicable circumstances, where applicable and practicable, cooperate with us in the area of rural finance, offer advisory services, conduct mapping of our relevant products and services and processes, and provide suggestions of improvement compared to international best practices.

Internet Finance Services

Ant Financial will, under applicable circumstances, where applicable and practicable, jointly with us conduct research on payment and settlement, scenario exploration, merchant services, credit and other cooperation programs, as well as develop financial products based on our commercial banking service capabilities and its Internet and mobile financial services capabilities. It will systematically carry out research on our financial services based on its platform and make suggestions to us on enhancing customer experience and service capabilities, and support our development of wealth management products applicable to its platform.

Affiliates of Shenzhen Tencent will, under applicable circumstances, where applicable and practicable, jointly with us conduct research on payment and settlement, scenario exploration, merchant services, syndicated loans, co-branded cards and other cooperation programs, as well as develop financial products based on our commercial banking service capabilities and its Internet and mobile financial services capabilities. They will systematically carry out research on our financial services based on its platform and make suggestions to us on enhancing customer experience and our service capabilities, and support our development of wealth management products applicable to its platform.

Corporate and Investment Banking Business

UBS and JPMorgan may, under applicable circumstances, where applicable and practicable, provide us with advice, support and cooperation in corporate and investment banking business, and assist us in providing corporate clients with products and service solutions that satisfy lifecycle demand. With respect to corporate business models, we may be provided with information and insights regarding operational and management models for funds management and the like. Regarding investment banking business models, we may be provided with consultations regarding development of financial and valuation models and trading analysis templates, as well as training in areas such as product development and portfolio, business and customer expansion, business operations and risk management procedures. With respect to asset securitization business, UBS and JPMorgan may share experience with us and cooperate on areas such as product know-how, structuring, pricing and project management, and arrange secondment and study opportunities for our eligible staff on contents covering securities underwriting and issuance, merger and acquisition, assets securitization, direct investment, restructuring and other strategic advisory and financial advisory services.

JPMorgan may, under applicable circumstances, where applicable and practicable, assist us in upgrading and transforming our capabilities for trade finance services and management. We may be provided guidance in areas such as product design and innovation, review and approval procedures, risk management models, quota management, marketing strategies and be advised on how to enhance product competitiveness.

International Business

DBS Bank will, under applicable circumstances, where applicable and practicable, provide training to us on cross-border cash management and international trade finance, share with us specific examples and relevant experience of transactions from structuring to implementation, and strengthen cooperation with us on customer referral and areas of joint services.

Financial Market Business

UBS, China Life, JPMorgan and DBS Bank may, under applicable circumstances, where applicable and practicable, assist us in enhancing our capabilities in financial market operation, product research and development and risk management; share with us their experience in relation to capital trading business management mechanism, performance appraisal mechanism, information system, pricing models and risk identification modules, and provide us with assistance and suggestions on how to formulate relevant implementation measures and plans for building up the taskforce for executing these initiatives, help us build up and train a team of precious metals and derivatives products trading; dispatch experts to provide us with training to assist and enhance our capabilities in financial market business risk management and system establishment, to build up trading platforms for financial products such as interest rate, exchange rate, credit and commodity and their derivatives, to help enhance our pricing capabilities; cooperate with us in the identification of business, marketing, market-making, products development and structural design; share with us their experience, approval process, risk assessment criteria and best practices in areas such as bond investment and alternative investment; and arrange secondment and study opportunities for our eligible staff, and share with us their market research reports and other market research findings.

Wealth Management/Asset Management Business

UBS, JPMorgan and DBS Bank may, under applicable circumstances, where applicable and practicable, share with us their knowledge, experience and best practices in wealth management/asset management business; assist us to improve the organizational structure, human resources management framework, core operating and investment recommendation procedures and service management methods, risk management and control system and brand management of our wealth management/asset management business, and provide us with guidance in building product and solutions systems; and share with us experience on how to establish a wealth management service system, an assessment system of the target customers for wealth management and a wealth management customers relationship management system, as well as the provision of differentiated services to customers; to assist us in our development of our wealth management business and expansion of target customer base. They may provide us with training on specific topics with respect to wealth management and asset management; engage in our development of asset management products and provide expert advice, share with us information and insights in areas of product design, asset transactions, risk management, pricing and valuations, provide us with assistance in improving investment risk monitoring and performance evaluation capabilities, and offer our eligible staff overseas internship opportunities.

Other Cooperations

In addition, each of the Strategic Investors may, under applicable circumstances, where applicable and practicable, cooperate with us with respect to our risk management, channel construction, human resources development and training, information technology and other areas based on its own resources and strengths.

Risk Management

UBS, JPMorgan and FMPL may, under applicable circumstances, where applicable and practicable, share with us experience in risk management, provide advice on overall risk assessment and analysis, as well as assistance and suggestions for improving risk management structure and optimizing risk management framework. They may arrange the provision of risk management organizational framework, key technical points of tools and models, models and methodologies in relation to internal rating based approaches by way of training, share with us tools, methods and best practices in credit risk management, liquidity and market risk management, operational risk management and reputational risk management, assist us in current status diagnosis and gap analysis for risk management through joint working groups or consultation mechanism, and provide proposals on relevant areas of improvement and assist in its implementation, to enhance our risk management level.

Channel Construction

JPMorgan may, under applicable circumstances, where applicable and practicable, provide us with advice and collaborate with us in certain aspects relating to channel construction, where it assists us in studying and establishing online and offline channel coordinated development strategies, improving the planning on number and layout of directly-operated outlets, agency outlets and self-service distribution channels. JPMorgan may provide us with advice on further optimization of outlet operations and management, the establishment of marketing systems through workshops on specific topics, and provide advice regarding development of a well-targeted performance assessment system so as to promote the optimization and upgrade of our outlets. JPMorgan may provide us with training regarding best practices of model innovation for online channels, product element and portfolio innovation, online market scenario development and the development of online risk control models, and provide advice on how to develop customized mobile applications to enhance the user experience.

JPMorgan and we may, under applicable circumstances, where applicable and practicable, deepen our business relationship with regards to USD clearing. JPMorgan may share with us its experience in the global clearing business, and support our development in cross-border RMB clearing business. JPMorgan may provide support and help when we prepare to set up foreign branch organizations.

Development of Human Resources and Training

UBS, CPPIB, Ant Financial, JPMorgan, FMPL and affiliates of Shenzhen Tencent may, under applicable circumstances and terms contained in their respective Strategic Cooperation Agreements, at different levels and in different ways, where applicable, share with us insights and knowledge in areas such as compensation management, performance assessments, talent introduction mechanism, and training and career development systems; have regular discussions with our senior management to arrange exchange and secondment for our designated staff and arrange the provision of targeted specific training support to personnel at different levels, including methods such as on-site seminars, training, study visits and internships, and arrange the provision of consulting opinions for our Board of Directors and Remuneration Committee regarding our executive compensation structure and incentive mechanism.

Information Technology

UBS, Ant Financial, JPMorgan and affiliates of Shenzhen Tencent may, under applicable circumstances, where applicable and practicable, share with us experience in aspects of information technology systems, and provide us with training or suggestions for system construction, IT planning and IT governance. They may share with us advanced experience in areas such as financial cloud computing technologies and big data applications, and provide technical support and guidance to assist us in establishing Internet financial infrastructure platforms and big data platforms in order to improve our IT support capabilities.

Current Cooperation Progress

As of the Latest Practicable Date, we have made substantive progress with the Strategic Investors, specific details of which are as follows:

Exchange Visits and Communications between Senior Management

Since the signing of the Strategic Cooperation Agreements, our senior management and the senior management of certain Strategic Investors have held several meetings to share their views on the macroeconomic conditions, industry prospects and development strategies of their respective companies and other important issues, and reached broad consensus in advancing the direction of strategic cooperation.

Business Communication and Cooperation

In 2016, our relevant departments, branches and subsidiaries held numerous communications with certain Strategic Investors in areas such as corporate governance, retail finance, wealth management, financial markets and channel construction, and we commenced cooperation in certain areas. We held various communications with certain Strategic Investors on corporate governance, environmental and social risk management and improvement of the capabilities in the sustainable finance sector, and carried out relevant diagnostic analysis. Our consumer credit department and our subsidiary PSBC Consumer Finance have held various communications, exchanges and negotiations with certain Strategic Investors in respect of online consumer finance services cooperation projects, and the business was successfully launched. We have held various communications with certain Strategic Investors on the establishment of wealth management systems and jointly organized a forum event for high-end customers. Further, we have set up a joint working group with specialists assigned by certain Strategic Investors, working collaboratively to promote branch network transformation projects.

Training

In 2016, we have communicated with certain Strategic Investors with respect to several cooperative training programs. We co-hosted a number of training sessions with such Strategic Investors, covering a number of areas such as retail credit, wealth management, financial markets and internal audit through forms such as research discussions and seminars with experts. Training participants included our senior management, middle-level management and key business personnel.

OVERVIEW

We are a leading retail bank in China with the largest distribution network, largest customer base and superior asset quality. Established in 2007, we are the youngest Large Commercial Bank and have significant growth potential. As of March 31, 2016, we had total assets of RMB7,707.6 billion, total deposits of RMB6,732.4 billion and total loans of RMB2,665.8 billion, ranking fifth, fifth and seventh among PRC commercial banks, respectively. According to *The Banker*'s list of "Top 1000 World Banks," we ranked 22nd in the world in terms of total assets as of December 31, 2015.

We are distinct from other commercial banks in China in a number of important respects. Firstly, we have a unique operational model consisting of both directly-operated outlets and agency outlets which are post offices owned by China Post Group. Our distribution network is the largest in China's banking industry with the widest geographical coverage, which not only enables us to deliver more convenient financial services to customers and to have access to long-term, stable and low-cost funding, but also creates significant opportunities for product distribution and cross-selling. Secondly, we strategically focus on providing financial services to communities, SMEs and Sannong customers and are committed to meeting the financial needs of the most promising customers during China's economic transformation, and will significantly benefit from the opportunities brought by China's on-going economic transformation. Thirdly, we believe that our distinct asset structure, superior asset quality and prudent approach to risks enable us to maintain flexibility to respond proactively to fluctuations in economic cycles.

Our distinctiveness includes the following:

- **Largest number of outlets among PRC commercial banks.** As of March 31, 2016, we had 40,057 outlets, including 8,301 directly-operated outlets and 31,756 agency outlets, covering all cities and 98.9% of the County Areas in China.

- **Largest retail customer base among PRC commercial banks.** As of March 31, 2016, we had 505 million retail customers, accounting for more than one-third of China's population.

- **Highest contribution of personal banking business to total deposits, total loans and total profit among Large Commercial Banks in China.** As of and for the year ended December 31, 2015, personal deposits represented 85.4% of our total deposits, personal loans represented 49.4% of our total loans, and profit before income tax of personal banking business represented 46.0% of our total profit before income tax, higher than the other Large Commercial Banks' average of 45.6%, 30.2% and 30.1%, respectively.

- **Significant funding cost advantage.** Our average cost of interest-bearing liabilities in 2015 was 1.94%, lower than the other Large Commercial Banks' average of 2.08%.

- **Superior asset quality and the highest allowance coverage ratio among Large Commercial Banks in China**. The majority of our assets are classified as low-risk assets, with very limited exposure to high-risk sectors such as over-capacity industries, local government financing vehicles and real estate industry. As of March 31, 2016, our NPL ratio was 0.81%, significantly lower than the other Large Commercial Banks' average of 1.73%, and our allowance coverage ratio was 286.71%, significantly higher than the other Large Commercial Banks' average of 154.73%.

We continually optimize our comprehensive risk management system and adhere to a prudent approach to risks. We have established a comprehensive risk management system covering credit risk, market risk, operational risk, liquidity risk and other risks. Our business expansion is underpinned by thorough risk assessment, and we do not engage in businesses with unfamiliar risks. We effectively manage risks through adopting a "barbell" strategy for our loan portfolio, pursuant to which large-sized enterprises and retail and small enterprise customers are our major target customers when we extend loans. As of March 31, 2016, our consumer loans and our small and micro enterprise loans accounted for 53.0% of our total loans, and our loans to large-sized enterprises accounted for 26.5% of our total loans. The average size of our consumer loans and our small and micro enterprise loans is small, which helps to diversify risk exposure. For our loans to large-sized enterprises, we carefully select high-quality customers and implement strict credit risk control measures. As of March 31, 2016, the NPL ratio of our large-sized enterprise loans was 0.01%. In recognition of our prudent risk management, we were awarded "Best Risk Management Bank of the Year" by *Financial News* in 2015.

Our success in pursuing a strategy to differentiate ourselves from other commercial banks in China is well demonstrated by our industry-leading performance. From 2013 to 2015, our total assets, total deposits, total loans and net profit recorded a CAGR of 14.4%, 10.0%, 28.7% and 8.4%, respectively, higher than the other Large Commercial Banks' average of 9.6%, 6.0%, 9.5% and 3.5%, respectively. In 2013, 2014 and 2015, our net interest margin was 2.67%, 2.92% and 2.78%, respectively, and our net interest spread was 2.66%, 2.87% and 2.71%.

Under our operational model consisting of both directly-operated outlets and agency outlets, agency outlets provide deposit taking services to customers under our name, for which we pay deposit agency fees to China Post Group. During the Track Record Period, deposit agency fees were the largest component of our operating expenses. In 2013, 2014, 2015 and for the three months ended March 31, 2016, deposit agency fees amounted to RMB46.1 billion, RMB50.4 billion, RMB54.4 billion and RMB14.7 billion, representing 45.4%, 44.1%, 44.0% and 47.2% of our operating expenses, respectively. For the same periods, the actual Composite Rate of the deposit agency fees was 1.44%, 1.43%, 1.42% and 1.43%, respectively. For details about the actual Composite Rate of the deposit agency fees, see "Connected Transactions." In 2013, 2014 and 2015, our cost-to-income ratio was 65.6%, 60.9% and 60.7%, respectively, higher than the other Large Commercial Banks' average of 31.0%, 30.1% and 29.2%, respectively.

We have solid growth potential by leveraging multiple growth drivers. Our customers, including retail customers, small and micro enterprises and Sannong customers, have outstanding growth potential, and their demand for financial services is expected to grow continually along with China's economic transformation. We will grow together with our customers and continue to improve our capability to deliver comprehensive financial services. We are still in a growth stage, with room to improve fee- and commission-based business, loan-to-deposit ratio and cost-to-income ratio. Moreover, compared with other Large Commercial Banks, we have the largest number of, and the most diversified group of, strategic investors, and the multi-faceted cooperation with these investors has provided our business development with abundant resources and strong momentum.

During the Track Record Period, we received numerous awards, recognitions and honors for our outstanding business performance and management capabilities, including the following:

Year	Award / Ranking	Event / Organization / Media
2016	Ranking 22nd in terms of total assets on the list of "Top 1000 World Banks" (「全球銀行1000強排名」總資產居第22位)	*The Banker*
2016	Significant Contribution Award in Financial Techology Innovation in 2015* (2015年金融科技創新突出貢獻獎) and Significant Contribution Award in Financial Product Innovation in 2015* (2015年金融產品創新突出貢獻獎)	*Financial Computerizing* (under the PBOC's management)
2015	Ranking 23rd in terms of total assets on the list of "Top 1000 World Banks" (「全球銀行1000強排名」總資產居第23位)	*The Banker*
2015	Gold Medal Retail Bank for the Year* (年度金牌零售銀行) and Gold Medal Financial Products Portfolio for the Year — Bank-Government Cooperation in respect of Small and Micro Enterprises* (年度金牌金融產品組合—小微企業銀政合作)	*Financial Money*
2015	2014 Most Influential Commercial Bank in China* (2014中國最具影響力商業銀行)	*Economic Information Daily*
2015	Best Risk Management Bank of the Year* (年度最佳風險管理銀行)	*Financial News*
2015	Outstanding Team of Financial Services for Small and Micro Enterprises among Banking Institutions in China* (全國銀行業金融機構小微企業金融服務優秀團隊獎)	CBRC
2015	Technology Innovation on IT Efficiency Management — Best IT Structure Innovation* (信息技術能效管理技術創新—最佳IT架構創新)	International Data Corporation, Hewlett Packard
2015	Award for Outstanding Transaction of Credit Assets for the Year of 2014* (2014年信貸資產類年度傑出交易獎)	China Securitization Forum

Year	Award / Ranking	Event / Organization / Media
2015	Outstanding Member in China's Bond Market in 2014* (2014年中國債券市場優秀成員) and Outstanding Sponsor of Asset Securitization in 2014* (2014年資產證券化優秀發起人獎)	China Central Depository & Clearing Co. Ltd.
2015	Best Market Maker Award in Anonymous Trading* (最佳競價做市機構獎), Best Member Award in Forward and Swap* (最佳遠掉會員獎), Best Member Award in Currency Swap* (最佳貨幣掉期會員獎) and Member with the Highest Market-making Potential in Forward and Swap* (遠掉最具做市潛力會員獎)	China Foreign Exchange Trade System
2015	Most Influential Institution and Best Market Making Institution on Interbank Renminbi Market* (銀行間本幣市場最具市場影響力獎與最佳做市機構獎)	National Interbank Funding Center
2014	Ranking 28th in terms of total assets on the list of "Top 1000 World Banks" (「全球銀行1000強排名」總資產居第28位)	*The Banker*
2014	Gold Medal Bank with Growth Potential for the Year* (年度金牌成長力銀行) and Most Reliable Retail Bank for the Year* (年度最可信賴零售銀行)	*Financial Money*
2014	Award for the Best Mobile Financial Terminals* (最佳移動金融終端獎)	*Shanghai Securities News*
2014	Best Inclusive Financial Services Bank for the Year of 2013* (2013年度最佳普惠金融服務銀行)	Institute of Finance and Banking of the Chinese Academy of Social Science
2013	Social Responsibility Award* (社會責任獎)	Foresight 2014: The "Reform Drivers Development" Finance and Economics Summit held by China Internet Information Center
2013	Best Social Responsibility Enterprise* (最佳社會責任企業) and Outstanding Growth Enterprise* (優秀成長性企業)	*Enterprise Management*
2013	Best Bank of Inclusive Finance* (最佳普惠金融銀行)	*Investor Journal*

Year	Award / Ranking	Event / Organization / Media
2013	Most Trusted Online Banking Brand by Internet Users* (網民最信賴網銀品牌)	China's First Seminar on the Development of Electronic Payment in 2013
2013	2013 Best Financial Service Brand of Small & Micro Enterprises in China* (2013中國最佳小微金融服務品牌) and 2013 Best Medium-sized & Small Enterprises Credit Service Bank* (2013最佳中小企業信貸銀行)	*Moneyweek*
2013	Excellent Bank for the Benefit of People for the Year* (年度卓越惠民銀行)	*The Economic Observer*
2013	Best Wealth Management Bank for the Year* (年度最佳財富管理銀行)	China Internet Information Center
2013	Best Bank of Green Credit in Asia* (亞洲最佳綠色信貸銀行)	*21st Century Business Herald*

OUR STRENGTHS

A leading retail bank in China with the largest distribution network and customer base

Leveraging the postal network, we have established a unique operational model consisting of both directly-operated outlets and agency outlets, which has enabled us to build the largest banking outlet network in China with the widest geographical coverage and to deliver convenient financial services to vast customer base. Compared with the other Large Commercial Banks, we have broader and deeper network coverage, and compared with rural banking financial institutions, we provide more comprehensive and professional products and services. As of March 31, 2016, we had 40,057 outlets, including 8,301 directly-operated outlets and 31,756 agency outlets, covering all cities and 98.9% of the County Areas in China. Our outlet network also has significant advantages in terms of geographically balanced coverage and high penetration rate. As of March 31, 2016, 33.3% of our outlets were located in China's economically-developed areas, including Yangtze River Delta, Pearl River Delta and Bohai Rim, 28.5% in Western China, 27.0% in Central China and 11.2% in Northeastern China. As of the same date, our outlets located in County Areas and Urban Areas accounted for 71.2% and 28.8% of total outlets, respectively. As of December 31, 2015, our penetration rate in terms of outlets per 100,000 population in China was 2.9, significantly higher than the average of the other Large Commercial Banks of 1.0.

We have the largest retail customer base among PRC commercial banks. As of March 31, 2016, we had a total of 505 million retail customers, more than one-third of China's population. As of March 31, 2016, personal deposits accounted for 86.4% of our total deposits and personal loans accounted for 48.7% of our total loans. In 2015, 46.0% of our profit before income tax was from personal banking business, which was significantly higher than the average of the other Large Commercial Banks of 30.1%. As of March 31, 2016, 70.1% of our retail accounts were in County Areas and 49.8%

in Central China and Western China. Given the relatively under-developed financial infrastructure, demand for financial services in County Areas, Central China and Western China is expected to grow much faster than other areas in China. Leveraging our advantages in network, products and services, we have developed a highly loyal and stable retail customer base in these regions.

Our leading distribution network and large customer base provide a powerful platform to distribute financial products and services. We believe we were the largest bancassurance distributor among PRC commercial banks from 2011 to 2015 in terms of the total written premium of new policies for the year. As of March 31, 2016, the number of our debit cards in circulation totaled 779 million, ranking second among PRC commercial banks. At the same time, we selectively market tailored financial products for specific customer segments such as pensioners, migrant workers, college students and small and micro enterprise owners.

To complement our extensive outlet network, we have expanded our online presence to develop an "online + offline" distribution network. We have established a multi-access electronic banking system consisting of online banking, mobile banking, self-service banking, telephone banking, TV banking, and "Weibank." As of March 31, 2016, we had 107,443 self-service terminals, our electronic banking users totaled approximately 160 million and our mobile banking users totaled over 100 million. We are implementing the "Internet+" strategy across our entire business and have launched "PSBC e-Loan* (郵e貸)," a brand of our online lending business, with products including "Convenient Merchants Loan* (商樂貸)" for small enterprises and "Shop Owners Loan* (掌櫃貸)" for operators of small-scale supermarkets. We are committed to providing more convenient services to our customers by continually enhancing functionalities of applications including online payment, and we are one of the first banks to support "Apple Pay" in China.

Serving the most promising customers during China's economic transformation

We serve the most promising customers during China's economic transformation. Leveraging our differentiated strategic positioning of serving communities, SMEs and Sannong customers, we will significantly benefit from China's economic transformation.

The main drivers of economic growth are expected from three areas: consumption-led economy, rapid growth of SMEs and new urbanization of rural regions of China, which bring new development opportunities to banks in China. Firstly, China's economic growth is shifting towards a consumption-driven pattern. In 2013, 2014 and 2015, the contribution of consumption to China's GDP growth was 48.2%, 51.6% and 66.4%, respectively. Secondly, SMEs are playing an increasingly important role in China's economic development. In 2014, SMEs' contribution to China's GDP, government taxation and employment exceeded 65%, 50% and 75%, respectively, but their demand for credit was significantly underserved. Thirdly, the new urbanization of China's rural regions is an important strategy for future development, and there exist huge opportunities for economic development in County Areas. In 2013, 2014 and 2015, China's urbanization rate was 53.7%, 54.8% and 56.1%, respectively, which is much lower than the level of developed economies.

We are a community bank for everyone. Leveraging our distribution network's proximity to customers, we have established a community financial service ecosystem, providing convenient and high-quality financial services to customers in communities. As of March 31, 2016, our consumer loans (including residential mortgage loans and other consumer loans) totaled RMB810.3 billion, representing 30.4% of our total loans. Our consumer loans grew at a CAGR of 44.5% from 2013 to 2015. Our market share of consumer loans extended in 2015 was 6.4%, ranking sixth among PRC commercial banks. We believe our pension payments agency business accounts for a substantial market share among PRC commercial banks. In 2015, we processed a total of approximately 662 million pension payments to pensioners.

We are a leading provider of small and micro enterprise banking services. We were an early mover in this area and have built up long-term customer relationships, accumulated a solid customer base and developed rich technical expertise. As of March 31, 2016, we had approximately 24,000 specialized staff for small and micro enterprise banking services and offered 90 products tailored for small and micro enterprises, featuring a convenient application process, flexible product design and quality services. In 2015, we ranked first among PRC commercial banks in terms of both the year-end outstanding balance and the annual incremental personal operational loans, according to the CBRC data. We are the only commercial bank in China that publishes a small and micro enterprise development index on a monthly basis, which has become an important reference for decision-making by government authorities. Our small and micro enterprise loans include corporate loans to small enterprises, micro loans and personal business loans. As of March 31, 2016, the balance of our small and micro enterprise loans was RMB603.2 billion, representing 22.6% of our total loans, with approximately 2.58 million customers. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our small and micro enterprise loans enjoyed sound yields, with a weighted average contractual interest rate at 9.20%, 8.99%, 8.03% and 7.49%, respectively.

We are an important provider of Sannong Finance Services. As of March 31, 2016, 71.2% of our outlets are located in County Areas, giving us an inherent competitive advantage in offering financial services in those areas. Through professional teams and a wide array of products, we actively seize opportunities brought by the new urbanization of rural areas. As of March 31, 2016, we had over 28,000 outlets and 150,000 cash withdrawal service points for farmers in County Areas. As of the same date, our Sannong Loans were RMB783.2 billion, representing 29.4% of our total loans. Our Sannong Loans grew at a CAGR of 38.0% from 2013 to 2015.

We serve retail, small and micro enterprises and Sannong customers with evolving needs for financial services, which has not only contributed to our higher business growth rate than peers, but also led to our superior loan pricing capabilities. From 2013 to 2015, the CAGR of our total assets, total deposits and total loans was 14.4%, 10.0% and 28.7%, respectively, higher than the average CAGR of 9.6%, 6.0% and 9.5% of the other Large Commercial Banks, respectively. The average yield of our total loans was 7.14%, 6.97% and 6.24% for 2013, 2014 and 2015, respectively, higher than the other Large Commercial Banks' average of 5.77%, 5.83% and 5.38%. We are committed to growing with our customers and thus benefit from development opportunities brought by China's economic transformation.

Superior asset quality and prudent risk management

We have a unique and sound asset structure. Firstly, a large portion of our assets are low-risk and capital-efficient. As of March 31, 2016, cash and deposits with the PBOC and deposits and placements with other banks and financial institutions accounted for 23.1% of our total assets; and investment securities, primarily including government bonds and debt securities issued by policy banks and other financial institutions, accounted for 37.8% of our total assets. Secondly, loans to customers accounted for a small percentage of our total assets which gives us flexibility to adjust our asset structure in response to China's economic transformation. As of March 31, 2016, our total loans accounted for only 34.6% of our total assets, much lower than the other Large Commercial Banks' average of 53.8%. Thirdly, we have a high-quality interbank investment portfolio with no defaults during the Track Record Period.

Adhering to our credit business strategy focusing on retail lending, we have a balanced loan portfolio structure and limited credit exposure to high-risk sectors. As of March 31, 2016, personal loans, corporate loans and discounted bills accounted for 48.7%, 38.6% and 12.7% of our total loans, respectively. We have limited credit exposure to high-risk areas such as over-capacity industries, local government financing vehicles and the real estate industry. As of March 31, 2016, (i) loans to over-capacity industries accounted for only 2.5% of our total loans with a NPL ratio of 0.34%; (ii) loans to local government financing vehicles accounted for only 4.0% of our total loans with a NPL ratio of nil; and (iii) corporate loans to the real estate industry accounted for only 1.5% of our total loans with a NPL ratio of 0.04%.

We strictly comply with regulatory standards on classification of special mention loans and NPLs, and we believe our classification criteria for personal loans are stricter than regulatory requirements. As a result, we believe our data relating to NPLs are accurate indicators of our credit asset quality. As of December 31, 2015, (i) our ratio of special mention loans to total loans and to NPLs was 1.50% and 186.1%, respectively, while the average of the other Large Commercial Banks was 3.43% and 206.7%, respectively; and (ii) our ratio of overdue loans to NPLs was 123.3%, while the other Large Commercial Banks' average was 151.9%. As of December 31, 2013, 2014 and 2015, (i) our NPL ratio was 0.51%, 0.64% and 0.80%, respectively, and (ii) our overdue loan ratio was 0.60%, 0.82% and 0.99%, respectively, all of which were lower than those of the other Large Commercial Banks as of the same dates. As of March 31, 2016, our NPL ratio of loans to large-sized enterprises was only 0.01%, and we had no NPL for discounted bills. We are able to maintain superior asset quality in the rapid development of our credit business. From 2013 to 2015, the migration ratio of our special mention loans was 1.5%, 3.8% and 6.5%, respectively, lower than the other Large Commercial Banks' average of 11.6%, 13.3% and 23.6% during the same periods. We have sufficient allowance for impairment losses on our loans. As of December 31, 2013, 2014 and 2015, our allowance coverage ratio was 382.94%, 364.10% and 298.15%, respectively, higher than that of the other Large Commercial Banks as of the same dates.

Our superior asset quality reflects our continually improved risk management capabilities. We take a prudent approach to risk, which is best reflected in our risk philosophy: "moderate risk, reasonable return and steady operation." With goals to maximize risk-adjusted returns and maintain sound capital adequacy, we have established a comprehensive risk management system covering credit risk, market risk, operational risk, liquidity risk, legal and compliance risk, information technology risk and reputational risk. We have integrated risk management in all aspects of our organizational structure and fostered a culture that runs through our entire organization in which risk management is everyone's responsibility. Our prudent risk management is also demonstrated in the following respects:

- We adhere to a "barbell" strategy for our loan portfolio, pursuant to which large-sized enterprises and retail and small enterprise customers are our major target customers when we extend loans. As of March 31, 2016, our consumer loans and our small and micro enterprise loans accounted for 53.0% of our total loans, and the average size of small and micro enterprise loans is small, which effectively lowers our credit risk with a diversified loan portfolio. As of the same date, our loans to large-sized enterprises accounted for 26.5% of our total loans. Substantially most of the borrowers of our loans to large-sized enterprises are quality companies with high credit ratings, primarily including large infrastructure projects, state-owned enterprises or industry-leading enterprises. We have centralized the credit approval authority for loans to large-sized enterprises at our head office, which enables us to effectively manage credit risk for such loans.

- We have developed specialized retail credit techniques. Through collaboration and communications with international institutions including GIZ and Bank Rakyat Indonesia, we have adopted advanced international practices in the context of China's unique lending conditions. We apply credit risk management tools and techniques on small and micro enterprise loans and personal loans, including regional credit approval policies, whole-cycle tests, site visits by two client managers, cross check of borrowers' information from multiple sources and relationship-oriented credit investigation techniques, among others. We are also cooperating with FICO on the establishment of client scoring system.

- We seek to apply IT technologies to strengthen our risk management, optimize our risk measurement models, and improve our risk alert system.

A strong deposit franchise and significant funding advantage

As of December 31, 2015, our total customer deposits and personal deposits ranked fifth and fourth among PRC commercial banks, respectively. As of March 31, 2016, our total customer deposits and personal deposits amounted to RMB6,732.4 billion and RMB5,817.5 billion, respectively. Even in the context of interest rate liberalization and the emergence of Internet finance in China, we have achieved a stable growth in our customer deposits. From 2013 to 2015, the CAGR of our total customer deposits, personal deposits and corporate deposits was 10.0%, 9.0% and 17.2%, respectively, higher than those of other Large Commercial Banks for the same period. We are the only Large Commercial Bank with a constantly-increasing market share of personal deposits from 2013 to 2015. Our incremental personal deposits in 2015 ranked third among PRC commercial banks, and those in Anhui, Henan, Hubei, Hunan and Chongqing ranked first among local branches of Large Commercial Banks and nationwide joint-stock commercial banks, according to the PBOC.

Our stable funding sources and low funding costs give us significant competitive advantages. Firstly, customer deposits are our main source of funding. As of December 31, 2013, 2014 and 2015, our customer deposits accounted for 95.8%, 94.9% and 89.7% of total liabilities, respectively, higher than the other Large Commercial Banks' average of 81.6%, 79.1% and 77.2%. Secondly, personal deposits are our main source of customer deposits. As of December 31, 2013, 2014 and 2015, our personal deposits accounted for 87.2%, 86.7% and 85.4% of total customer deposits, respectively, higher than the other Large Commercial Banks' average of 45.4%, 45.5% and 45.6%. Thirdly, we obtain a large amount of stable and low-cost corporate deposits through providing payment and settlement services to various large-sized national enterprises. As of December 31, 2013, 2014 and 2015, our corporate demand deposits accounted for 74.9%, 71.9% and 67.2% of total corporate deposits, respectively, higher than the other Large Commercial Banks' average of 56.9%, 55.3% and 55.5%. Benefiting from the foregoing factors, in 2013, 2014 and 2015, our average cost of interest-bearing liabilities was 2.00%, 2.02% and 1.94%, respectively, lower than the other Large Commercial Banks' average of 2.10%, 2.23% and 2.08%.

Our adequate funding sources effectively support our credit and treasury businesses. Our loan-to-deposit ratio increased from 28.67% as of December 31, 2013 to 39.20% as of December 31, 2015 and further increased to 39.60% as of March 31, 2016, demonstrating strong potential for future growth of our credit business. We are one of the most active participants in China's interbank market. In 2015 and for the three months ended March 31, 2016, we had a trading volume of RMB34,352.7 billion and RMB10,315.9 billion settled through China Central Depository & Clearing Co., Ltd., respectively, ranking third and second among PRC commercial banks, respectively.

As one of the major participants with pricing power in the mid- and long-term funding in China's financial market, we are adept at capturing opportunities created by the funding cost fluctuations in the financial market, which brings our treasury business a higher interest spread and generates sound capital-efficient returns. In 2013, 2014 and 2015, the average yield on our amounts due from banks and other financial institutions was 4.98%, 5.49% and 4.87%, respectively, higher than the other Large Commercial Banks' average of 3.63%, 4.23% and 3.40%.

Our solid deposit base is an engine for our future business growth. Leveraging our deposit business as the basis to acquire customers, we are able to lower customer acquisition cost, improve customer stickiness and conduct cross-selling, which enables us to gradually expand the financial products and services used by our customers beyond the deposit service.

Advanced information technology capabilities providing comprehensive support for business development

We have leading information technology capabilities. Our computer network has the broadest coverage and largest number of connected outlets among PRC commercial banks. Among the Large Commercial Banks in China, we are a pioneer in adopting a core banking system based on an open platform, minicomputer clustering technology and distributed architecture. Our core banking system is highly stable, highly scalable and cost-efficient. With a distributed architecture which is one of the core technologies of the cloud platform, our system is more suited to achieving cloud migration as compared with our peers, which is in line with the development of Internet finance and the information technology transformation of China's banking industry. In 2015, the average success rate of our system was 99.8% and our cross-bank transaction success rate was 99.7%, ranking first among Large Commercial Banks in China, according to China Union Pay data. On 2015 Singles Day, our system successfully handled the huge transaction volume during peak hours while the number of transactions on the Taobao e-commerce platform doubled compared to that in the previous year, and the number of transactions we processed on that day ranked fifth among the PRC commercial banks.

We have advanced capabilities of applying big data and cloud technology. We have built a hybrid big data platform with "data warehouse & distributed database under Hadoop architecture," which has the largest amount of customer-related data among PRC commercial banks. Through highly integrated data processing, our big data platform lays the technical groundwork for capturing customer value, optimizing risk management, and implementing refined financial management. We have established an Internet finance platform. Leveraging the big data technology, we carry out research on a combination of information, including customers' transaction behavior, repayment ability, household income, consumption habits, activity track and credit records, to implement cross-selling and targeted marketing and conduct quantitative risk analysis to improve our ability to address customer needs and enhance user experience. We have successfully migrated the electronic banking functions of our channel management system and PSBC Consumer Finance's system to the cloud, and will swiftly migrate other businesses to the cloud. Since the launch of our cloud platform, transactions through our cloud platform accounted for approximately 38% of our total transactions on a daily average basis, with a daily average of approximately 26 million transactions processed in the cloud, which makes our system more flexible.

Our strong information technology innovation capabilities drive the comprehensive development of our businesses and improve our service performance and operational efficiency. At the front office, we have applied Internet technology to promote Mobile Business Development. Our client managers use secured mobile terminals, anytime and anywhere, for paperless operations including pre-loan investigations of customers and post-loan management, which improves processing efficiency. At the middle office, we have adopted big data technology, re-configured the credit approval process and built models tailored for certain products, channels and industries, with certain credit products being approved and disbursed automatically to improve operational efficiency. At the back office, we have built a data-oriented customer scoring model and credit risk measurement model based on data mining and analysis, which allows us to collectively integrate and share credit risk information and enhances our risk monitoring and warning system. Based on Internet finance technology, we have established a comprehensive electronic banking system consisting of mobile banking, online banking and "Weibank," which has become the main channel for daily transactions.

Strong support from our controlling shareholder and extensive cooperation with our Strategic Investors

China Post Group is our controlling shareholder and ranked 143rd among the Fortune Global 500 companies in 2015. Its three segments include postal services, financial services and express delivery and logistics. In its financial services segment, it has obtained licenses for insurance and securities businesses. As a large wholly state-owned conglomerate, it is widely recognized for business flows of goods, funds and information. We have established a principal-agent relationship with China Post Group, which is stable, transparent, fair and mutually beneficial. We can leverage its extensive network throughout the country to better serve our customers. China Post Group also provides a platform which enhances our connection with its other financial subsidiaries through cross-selling, resource sharing and mutually-beneficial cooperation. In addition, with government-backed credibility and brand awareness, China Post Group offers strong reputational support to our business development.

We proactively collaborate with China Post Group in various ways to provide customers with more diversified and convenient services. For example, China Post Group has established a rural e-commerce service system based on small-scale supermarkets in County Areas and provides corresponding logistics services. The operators of such small-scale supermarkets assist farmers in nearby areas to conduct transactions on the rural e-commerce platform. Through those small-scale supermarkets, we provide farmers in nearby areas with services primarily including small amount cash withdrawals, bank account opening, fee payment and top-up, as well as collection and payment agency services. In addition, based on the e-commerce transaction data of the small-scale supermarkets, we provide the operators with an online loan product "Shop Owner Loan (掌櫃貸)" to meet their working capital demands. This is a new business model for Sannong Finance Services initiated by China Post Group and us under our close cooperation.

In December 2015, with the objective of "introducing capital, best practices, resources, technology and know-how," we successfully diversified our ownership structure through the introduction of ten Strategic Investors, namely UBS, China Life, China Telecom, CPPIB, Ant Financial, JPMorgan, FMPL, IFC, DBS Bank and Shenzhen Tencent. We have a diversified combination of Strategic Investors and will leverage their respective experience and resources to help accelerate our future growth. We actively promote strategic cooperation with our Strategic Investors in areas such as retail finance, wealth management and financial markets businesses, as applicable. Leveraging our Strategic Investors' experience and strengths in the areas of corporate governance, business innovation, information technology and risk management, as applicable, we have access to advanced know-how and resources that will improve our overall management capability and operating efficiency. This cooperation helps us better adapt to the changing market environment and meet the needs of our customers. Our cooperation arrangements with our Strategic Investors include:

- Corporate governance: Leveraging IFC's diagnostic and analytical tools to improve corporate governance mechanism.

- Channel optimization: Leveraging JPMorgan's support to further promote transformation of our outlets.

- Retail finance: Cooperating with Ant Financial, Shenzhen Tencent and WeBank to establish online consumer finance services.

- Wealth management: Learning from and interacting with UBS and DBS Bank to develop our wealth management system.

- Risk management: With assistance from JPMorgan, refining the plan to improve our risk management capability.

Experienced management team and talented and motivated employees

Our senior management team is visionary and experienced in the industry. The team has background in banking, postal finance and financial regulation, is professionally experienced in the management of financial institutions, and gives us unique advantages for strengthening cooperation with China Post Group. Mr. Li Guohua, our chairman, has over 30 years of work and management experience in the postal and financial industries. Mr. Li previously served as the deputy post master general of the State Post Bureau and is now the president of China Post Group. Mr. Li was named as one of the "Top Ten PRC Entrepreneurs of 2014" and "Top Ten Financial Figures of 2014 in China." Mr. Lyu Jiajin, our president, has nearly 30 years of work and management experience in the postal and financial industries. He has served as the deputy director general of the Postal Savings and Remittance Bureau of the State Post Bureau and as our vice president. Mr. Chen Yuejun, our chairman of the Board of Supervisors, has over 30 years of experience in the financial industry and financial regulation. He previously served in several senior positions in various regulatory agencies including the PBOC and the Finance Office of the People's Government of Sichuan Province. Most of our management team have worked for us since our establishment, served in several internal positions and played a key role in our development. A stable management team effectively safeguards the coherent implementation of our strategies and the continuous development of businesses.

We have devoted considerable resources to employee recruitment and training, and we have a team of talented and motivated employees who can develop and grow with us. Reflecting our distinction as the youngest Large Commercial Bank, our team is young and capable of embracing innovation and changes in the banking industry. As of March 31, 2016, the average age of our employees was 35 and 69.3% of our employees were 40 years old or below. We are currently in our growth stage with strong development potential and continue to broaden channels for employees' promotion by providing them with a well-established career development platform. Since 2014, we have attracted talents with broad banking management experience by carrying out our nationwide "recruitment of a thousand talents (千人大招聘)" program. By further strengthening our cooperation with Strategic Investors, we continue to establish training systems and endeavor to improve the professionalism of our employees.

OUR STRATEGIES

Our strategic vision is to become the most trusted and valuable first-tier large retail bank. Based on our 505 million retail customers and 40,057 outlets, we will continually expand and develop various high-quality financial products and services to deepen customer penetration and enhance customer retention. Through our cooperation with a variety of institutions including China Post Group and our Strategic Investors, we will build up a financial ecosystem serving vast retail customers in China through cross-selling and scenario-based "Internet+" initiatives to meet their growing and evolving financial needs and demand for non-financial value-added services.

Our strategic goal is to achieve sustainable growth while providing a competitive return for our Shareholders. We seek to achieve our goal through the following strategies.

Pursue our philosophy of "One Body Two Wings" to solidify the strengths of our core business and further develop new businesses

As China's economy continues to transform, retail banking business will become the most important growth engine for China's banking industry. We regard our retail banking business as our main body and our corporate banking business and treasury business as two wings to reinforce the competitive edge of our core business and to promote the upgrade of our business capabilities. We will actively develop our fee- and commission-based businesses to diversify our revenue sources in response to evolving customer needs and market environment and cope with the challenges arising out of interest rate liberalization.

Strengthen and upgrade retail banking business

Retail banking business is the foundation of our Bank. We will implement the following strategies to comprehensively reinforce and upgrade our retail banking business, and further enhance our leading position:

- We plan to implement customer segmentation and matrix management of retail customers to optimize the structure of our customer base, carry out targeted marketing, further capture customer value, strengthen cross-selling, improve customers' overall contribution and enhance the economies of scale of retail customers.

- We will proactively develop our consumer finance business by going beyond the consumer credit business to offering comprehensive consumer financial services. We will provide all-round and integrated services to our customers by solidifying our existing business advantages in residential mortgage loans, adapting our consumer loan product portfolio to residential consumption structure and asset allocation structure and steadily developing PSBC Consumer Finance. We will strengthen our cooperation with e-commerce platforms, develop scenario-based consumer financial products and utilize big data technologies to expand our customer base and strengthen our customer acquisition capability.

- We will upgrade our ability to serve small and micro enterprises. By leveraging the operations of our specialized branches and comprehensive services and in response to the PRC government's strategies to encourage entrepreneurships and innovation, we will expand our cooperation with governments, strengthen financial services for SMEs in the people's livelihood sector, and develop our Internet finance business.

- We will continue to optimize our business model of Sannong Finance Services, expand financial services for the modern agriculture sector and improve service capabilities. We intend to use mobile devices and the Internet to provide services to our customers, apply the new generation retail credit factory technology, and increase our efforts to cooperate with governments, industry associations, corporations, guarantee companies and insurance companies.

- We will conduct multi-level cooperation with Strategic Investors such as JPMorgan and IFC in retail finance, consumer finance, small and micro enterprise banking services and rural finance pursuant to the relevant strategic cooperation agreements. We will also explore credit technology innovation by cooperating with Ant Financial and Shenzhen Tencent in the fields of payment settlement, scenario-based business promotion, services for merchants and credit business.

Develop corporate banking business with synergy effects

We will leverage the strengths of our distribution network, customer base and funding base to expand our corporate banking business and achieve coordinated development of corporate banking business, retail banking business and treasury business, improving the contribution of corporate banking business to our transformation and development. Specific measures include:

- We will encourage collaboration between our corporate and retail banking businesses based on our market position and corporate customers' needs to promote synergy and cross-selling between these two business lines and increase customers' aggregate revenue contribution.

- We will enhance our integrated marketing system and high-quality marketing team. Based on our customer segmentation in terms of industry, business scale and demand for services, we will set up marketing teams with members across departments and hierarchies and conduct coordinated marketing in order to improve our customer and product coverage.

- We plan to cooperate with UBS, JPMorgan and DBS Bank, where applicable, through experience sharing, training and technological support to improve our capabilities of customer development, product design and operational management.

Transform and innovate treasury business

While satisfying all capital and liquidity management requirements, we will promote the steady development, transformation and innovation of our treasury business, solidify and improve our involvement and earnings in various financial markets. Specific measures include:

- We will adapt to the changing trend of financing channels and promote the transformation and upgrade of our treasury business. We aim to become a major hub of funding on the interbank market, a marketplace of investment and financing projects, an information center of treasury operations, and a market leader in product innovation in the interbank business.

- We will build a leading asset management business in China. We will strengthen investment research capabilities and expand our investments in products available on all types of markets, including bonds, stocks, commodities, foreign exchange, and derivatives, among others. We will take advantage of our channels to further improve cooperation with financial institutions including securities companies, fund managers, insurance companies, asset management companies, trust companies, futures companies and private equity companies to enhance our investment capability.

- We plan to cooperate with our Strategic Investors such as UBS and JPMorgan in the fields of, where applicable, (i) the trading of financial products such as interest rates, exchange rates, credit and commodities, as well as other financial products and derivatives, (ii) bond investments, (iii) alternative investments and (iv) asset management.

Accelerate growth for fee- and commission-based businesses

In addition to strengthening traditional fee- and commission-based businesses such as settlement and collection and payment agency services, we will focus on the following areas based on customers' demand to cultivate and create new profit drivers for fee- and commission-based businesses:

- We will rapidly develop our credit card business and improve our capabilities in the management and operation of such business.

- We will broaden the portfolio of available investment products and strengthen product innovation, satisfying wealth management needs for retail and corporate customers. We will strategically focus on the asset management business among our fee- and commission-based businesses in order to achieve substantial development of this business.

- We will further develop our investment banking business by actively pursuing bond underwriting, investment advisory and asset securitization businesses. To expand our financial advisory business, we will leverage our project financing and merger and acquisition financing capabilities.

- We will promote our trade finance and cash management business and maintain sustainable growth of our custodian assets.

- We will improve our ability to expand businesses such as wealth management, investment banking and credit cards by leveraging our cooperation on products and training with Strategic Investors such as UBS, JPMorgan and DBS Bank, where applicable.

Upgrade our fundamental capabilities and achieve sustainable development

In concert with China's economic transformation, China's banking industry is transforming from a resource-driven pattern to a management-driven pattern, leveraging new technologies and business models. In recent years, with the rise of Internet finance, alternative sales channels and alternative products will drive the profound reform of the financial industry. Against this backdrop, we will actively capture the development opportunity of Internet finance, re-engineer business processes and improve operational efficiency. At the same time, we will continue to strengthen our risk and capital management capabilities, and promote the sustainable development of our business.

Fully develop our distinct "online + offline" Internet financial services platform

We will strive to explore the new "online + offline" integrated development model, create a distinct Internet financial services platform, and continually improve our business operation and customer service capabilities. Specific measures include:

- We will promote the establishment of an Internet finance cloud platform to establish new generation systems for mobile banking, online banking, website and self-service banking. We will increase the diversity of financial products for mobile banking, such as small enterprise mobile banking, further improve the functions of Mobile Business Development, and actively explore the establishment of a mobile payment system. We will speed up the development of mobile based services, accelerate the digitalization process of our outlets, and enhance the research and development, equipping, application and promotion of new self-service equipment.

- We will deepen our cooperation with Ant Financial and Shenzhen Tencent in Internet finance and mobile finance to improve customer experience and strengthen our service capability.

Enhance cost control and improve operational efficiency

We will further enhance cost control and improve operational efficiency. We intend to adopt the following measures:

- We will reasonably allocate resources to effectively control the costs associated with the major operational processes including outlet operations, equipment and employees.

- We will promote transformation of outlets, divide outlets into categories for differentiated management and optimize distribution of outlets. While setting up a certain number of comprehensive outlets, we will scale down the size of some outlets based on customers' needs to improve efficiency. We will strengthen technical support to promote the replacement of traditional counter business with electronic banking business and reduce costs through intelligent and electronic operations. We will cooperate with JPMorgan to further promote the transformation of our outlets.

- We will optimize business processes to build a bank with efficient processes. We will fully promote the integration and optimization of operational procedures on a customer-oriented basis, focusing on core processes such as operation management, credit approval and business processing.

- We will promote the development of the new generation retail credit factory, which enables us to build standardized and efficient business processes. We will centralize credit review and approval process to our head office and tier-1 branches, streamline our retail credit operations, and reduce hierarchies. We will establish data-driven credit scoring models and techniques to improve our capabilities of risk control and customer selection and acquisition. We will construct a product management platform to flexibly and rapidly launch products and quickly respond to customers' requests.

Continually enhance risk and capital management capabilities

We will continually enhance our comprehensive risk management system by improving our risk management organizational structure and adopting additional risk management methods and measures, so as to enhance our overall risk management capabilities on an on-going basis. We strengthen our capital management capabilities to provide capital support for our sustainable development of business in the future. Specific measures include:

- We will strengthen our comprehensive risk management capability, optimize the management system of our risk appetite policies, improve the organizational structure for risk management, form a quantitative-based risk management tool, strengthen risk monitoring and improve the mechanism of risk evaluation, assessment and accountability.

- We will improve our risk management information system, solidify our risk management data infrastructure, strengthen data governance and further promote the construction of information system for managing credit risk, market risk and operational risk.

- We will enhance capital management, improve our capital constraint mechanism, strengthen our capital adequacy assessment and further promote the application of risk measurement results in operations and management.

- Through cooperation with Strategic Investors such as UBS, JPMorgan and IFC on risk management, we aim to improve our risk management structure, optimize our risk management system and enhance our risk management capabilities, as applicable.

Adhere to the "technology-led" strategy

We will adhere to a technology-led business development strategy, considering IT construction as one of our core competitive attributes, in order to provide comprehensive IT support for our sustainable development. Specific measures include:

- We will promote platform and cloud migration of our system and establish a corporate IT system by using technologies such as cloud computing, big data and mobile computing.

- We will establish a "Smart Bank." We will establish a big data platform focusing on "customer experience" and "intelligence," which will promote data convergence and integration covering all business processes. We will establish a number of data marts in different fields, introduce stream computing technology, high-performance computing and machine learning technologies, and create a model library for risk and credit investigation in order to enhance our data analysis capabilities.

- We will take full advantage of our technology innovation laboratory to continually extend technology innovation in our business. We will further integrate information technology into our business development so as to effectively support our business development and innovation which will enhance our service capabilities and operational efficiency.

- We will cooperate with Ant Financial, Shenzhen Tencent, JPMorgan and UBS on information system development, IT planning, IT governance, finance cloud computing and big data application, as applicable.

Promote talent management strategy

We believe that the recruitment, retention, motivation and nurturing of talented and experienced professionals are critical to our success. We plan to cultivate talent in the following ways:

- We will strengthen our performance-based incentive mechanism. We will establish a remuneration system commensurate with position and performance, which can motivate our employees in a scientific, reasonable and effective manner.

- We will optimize our employee composition. Through internal development programs and lateral hires, we will establish a multi-level and extensive talent cultivation system with an objective of attracting, encouraging and nurturing employees and broadening their access to growth and development opportunities.

- Where applicable and practicable, we will cooperate with Strategic Investors to carry out management and employee exchange and training programs, promote the establishment of a remuneration and incentive mechanism for senior management and enhance our capabilities in the areas of remuneration management, performance management, talent acquisition and the establishment of a career development system.

OUR PRINCIPAL BUSINESSES

Major Business Segments

Our major business segments consist of personal banking, corporate banking and treasury business. The table below sets forth our operating income by business segment for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Personal banking	103,742	71.4%	115,235	66.3%	128,204	67.3%	33,982	71.5%
Corporate banking	28,182	19.4	31,508	18.1	33,648	17.6	8,983	18.9
Treasury business	13,032	9.0	26,779	15.4	28,341	14.9	4,468	9.4
Others[(1)]	278	0.2	353	0.2	440	0.2	81	0.2
Total operating income	**145,234**	**100.0%**	**173,875**	**100.0%**	**190,633**	**100.0%**	**47,514**	**100.0%**

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

Personal Banking Business

Overview

Personal banking is the foundation of our Bank and our primary source of operating income. We provide a wide range of products and services to individual customers, including Renminbi and foreign currency deposits, loans, bank cards, as well as fee- and commission-based products and services including Renminbi and foreign currency settlement, collection and payment agency services, foreign exchange, wealth management, bancassurance, and distribution of fund products, PRC government bonds and precious metals, and other products and services.

As of March 31, 2016, our retail service network had the largest number of outlets and the widest geographical coverage among PRC commercial banks, including 8,301 directly-operated outlets and 31,756 agency outlets. In addition, we have developed a multi-access electronic banking system consisting of online banking, mobile banking, self-service banking, telephone banking, TV banking and “Weibank.” Through our complementary “online + offline” service network, we provide high-quality services to 505 million retail customers.

Our personal banking business has grown rapidly in recent years. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our personal loans were RMB733.2 billion, RMB963.1 billion, RMB1,222.6 billion and RMB1,298.1 billion, respectively, representing 49.1%, 51.3%, 49.4% and 48.7% of our total loans, respectively, a higher proportion than those of other Large Commercial Banks. Our personal loans grew at a CAGR of 29.1% from 2013 to 2015. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our personal deposits were RMB4,537.5 billion, RMB5,032.3 billion, RMB5,386.6 billion and RMB5,817.5 billion, respectively, representing 87.2%, 86.7%, 85.4% and 86.4% of our total deposits, respectively. Our personal deposits grew at a CAGR of 9.0% from 2013 to 2015. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, operating income generated from our personal banking business was RMB103.7 billion, RMB115.2 billion, RMB128.2 billion and RMB34.0 billion, respectively, representing 71.4%, 66.3%, 67.3% and 71.5% of our total operating income, respectively. Operating income from our personal banking business grew at a CAGR of 11.2% from 2013 to 2015. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, profit before income tax of our personal banking business was RMB17.5 billion, RMB16.5 billion, RMB19.0 billion and RMB6.3 billion, respectively, representing 50.0%, 42.0%, 46.0% and 43.8% of our total profit before income tax, respectively.

Customer Base

We have the largest number of retail customers among PRC commercial banks. As of March 31, 2016, we provided financial services to 505 million retail customers, accounting for more than one-third of China's population.

We believe that the composition of our retail customers is more distinctive than that of the other Large Commercial Banks in China. We are one of the major commercial banks serving retail customers in Urban Areas, and have built a solid retail customer base in Central China and Western China as well as County Areas. As of March 31, 2016, 49.8% of our retail accounts were located in Central China and Western China and 70.1% of our retail accounts were located in County Areas. Compared with economically-developed areas and Urban Areas, the demand for financial services in Central China and Western China as well as County Areas is expected to grow much faster due to the relatively under-developed banking infrastructure. The broad coverage of our outlets in such areas has laid a foundation for the further development of our business, and we proactively explore customer needs for financial services in these areas. As of March 31, 2016, 50.06 million of our retail customers whose personal financial assets with us equaled or exceeded RMB10,000 were using four or more types of our products.

We divide our customers into four categories including ordinary customers, gold-level customers, platinum-level customers and diamond-level customers and provide differentiated products and services according to their different demands. Our customer segmentation is primarily based on each customer's personal financial assets and loan balances with us (collectively "consolidated assets"). We usually classify customers with consolidated assets less than RMB100,000 as ordinary customers, customers with consolidated assets of RMB100,000 or more but less than RMB500,000 as gold-level customers, customers with consolidated assets of RMB500,000 or more but less than RMB2,000,000 as platinum-level customers, and customers with consolidated assets of RMB2,000,000 or more as diamond-level customers. Gold-level, platinum-level and diamond-level customers are collectively our VIP customers.

We consistently focus on retaining and serving VIP customers in order to drive the growth in their financial assets with us. As of December 31, 2013, 2014 and 2015, the number of our VIP customers was approximately 11.61 million, 14.91 million and 17.72 million, respectively, representing a CAGR of 23.5% from 2013 to 2015. As of March 31, 2016, the number of our VIP customers was 19.28 million. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our VIP customers' aggregate financial assets with us were RMB2,314.9 billion, RMB2,877.5 billion, RMB3,543.9 billion and RMB4,007.3 billion, respectively, representing 43.7%, 47.1%, 51.4% and 53.2% of the total financial assets of our retail customers, respectively. Our VIP customers' aggregate financial assets with us grew at a CAGR of 23.7% from 2013 to 2015.

Products and Services

Personal Loans

We provide a variety of personal loan products consisting of consumer loans (including residential mortgage loans and other consumer loans), personal business loans, micro loans, credit card overdrafts and others. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our personal loans were RMB733.2 billion, RMB963.1 billion, RMB1,222.6 billion and RMB1,298.1 billion, respectively, representing 49.1%, 51.3%, 49.4% and 48.7% of our total loans, respectively. Our personal loans grew at a CAGR of 29.1% from 2013 to 2015. The table below sets forth our personal loans by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Consumer loans:								
Residential mortgage loans	297,846	40.6%	402,668	41.8%	577,256	47.2%	640,359	49.3%
Other consumer loans	55,053	7.5	108,247	11.2	159,683	13.1	169,949	13.1
Personal business loans	237,486	32.4	286,971	29.8	304,930	24.9	303,460	23.4
Micro loans	123,719	16.9	134,477	14.0	136,207	11.2	138,876	10.7
Credit card overdrafts and others	19,074	2.6	30,703	3.2	44,494	3.6	45,439	3.5
Total personal loans	**733,178**	**100.0%**	**963,066**	**100.0%**	**1,222,570**	**100.0%**	**1,298,083**	**100.0%**

We are establishing the new generation retail credit factory model, which integrates advanced management concepts and information technology, and this model enables us to improve the operational efficiency and risk management of our consumer loans, personal business loans and micro loans businesses through standardized operations, automated decision making and streamlined management. We launched our Mobile Business Development system in 2015. Our client managers use a secured mobile network terminal for paperless operations such as pre-loan due diligence and post-loan management. Recently, we constructed a data-driven scoring model, which will complement our expert and hybrid scoring models, contributing to risk identification, monitoring and alert system for our loan business.

From 2008 to 2010, we cooperated with GIZ, a company representing the German government to carry out technical assistance projects in developing countries, on "Micro Loans and Retail Banking Business Project." The experts from GIZ provided advice and training in many areas, including the products and applications, credit techniques, risk management and information technology of micro loans and personal business loans. We adopt relationship-oriented credit techniques in our micro loans and personal business loans business, combining the micro-credit know-how acquired from GIZ with the actual operating environment of small and micro enterprises in China. In particular, in the course of pre-loan investigation, we focus on cross checking a loan applicant's information from multiple sources. In addition to the information we collect from our pre-loan investigation, we also consider customer information available on the websites of the PBOC, SAIC, courts, tax authorities and other authorities, as well as local enterprise credit information public platforms in order to fully verify the credit status and operating status of applicants.

Consumer Loans

We market our consumer loans under the brand "Jia Xin Jia Mei (佳信家美)." We have developed a variety of consumer loan products, which satisfy customer financing demands for various consumption purposes. Leveraging our "online + offline" distribution channel, we make our services available across the spectrum of consumer finance transactions including house purchase, car purchase, education, leisure and senior care and have developed customized products to improve customer experience. We focus on the emerging needs of our high-quality customer group and young customer group and are actively expanding our personal consumer loan business into consumer finance related to rural areas, energy saving and environmental protection, and senior care. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the weighted average contractual interest rate of our consumer loans was 6.34%, 6.64%, 6.07% and 5.08%, respectively.

Residential Mortgage Loans

We provide our customers with residential mortgage loans for their purchases of new and second-hand properties. Our residential mortgage loans are secured by the underlying properties being purchased and have a term up to 30 years. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our residential mortgage loans were RMB297.8 billion, RMB402.7 billion, RMB577.3 billion and RMB640.4 billion, respectively, representing 40.6%, 41.8%, 47.2% and 49.3% of our total personal loans, respectively. Our residential mortgage loans grew at a CAGR of 39.2% from 2013 to 2015. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the weighted average contractual interest rate of our residential mortgage loans was 6.06%, 6.28%, 5.74% and 4.77%, respectively.

Other Consumer Loans

In addition to residential mortgage loans, we provide other consumer loans for retail customers and their families, including credit line consumer loans, personal auto loans, personal commercial properties loans and education loans. The maximum term of other consumer loans is 10 years.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, other consumer loans were RMB55.1 billion, RMB108.2 billion, RMB159.7 billion and RMB169.9 billion, respectively, representing 7.5%, 11.2%, 13.1% and 13.1% of our personal loans, respectively. Other consumer loans grew at a CAGR of 70.3% from 2013 to 2015. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the weighted average contractual interest rate of other consumer loans was 7.85%, 7.99%, 7.30% and 6.26%, respectively. As of March 31, 2016, the average balance of each other consumer loan was approximately RMB152,900.

We actively develop scenario-based Internet finance products. We cooperated with Ant Financial and Alibaba's Tmall to conduct the business of "Instant Auto Loan (車秒貸)" which was launched in June 2016. This product has connected our business system with external e-commerce platforms, which enables consumers to apply for loans on such online platform directly when purchasing cars on e-commerce platforms. Our personal credit system is able to receive and handle the online loan applications passed from e-commerce platforms, review and approve loan applications and extend loans.

Personal Business Loans

We provide personal business loans to small and micro business owners and individual business households in both urban and rural areas for production and operation. Our personal business loans can be drawn down on a revolving basis from a given credit line with flexible repayment methods. The maximum credit line is RMB10 million and the maximum term is five years.

As of December 31, 2013, 2014 and 2015, our personal business loans were RMB237.5 billion, RMB287.0 billion and RMB304.9 billion, respectively, representing a CAGR of 13.3% from 2013 to 2015. As of March 31, 2016, our personal business loans were RMB303.5 billion. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the weighted average contractual interest rate of our personal business loans was 8.05%, 8.11%, 7.33% and 6.58%, respectively.

To effectively meet the financing demands of various types of individual business owners, we continuously expand our personal business loan product portfolio. We provide not only nationwide standardized products but also products tailored to local economic characteristics. Our personal business loans accept various types of collateral, including real properties, small hydropower facilities, forest property rights, shop use rights, gold and others.

As we expanded our customer base and became more experienced in conducting this business, we have gradually upgraded our personal business loan operation. Since 2012, we have focused on promoting businesses related to industry clusters, industry chains and featured industries. Since 2014, we have developed an Internet-based product, "E Convenient Loan* (E捷貸)," through which we carry out online applications, drawdowns and repayments. We have also offered “Express Loan* (快捷貸)” products to small and micro business owners who run a dedicated and stable business with high-quality guarantees, which have improved customer experience by shortening the processing time.

Micro Loans

We provide micro loans to farm households, merchants and new-type agricultural operators (including family farms, farm households with large-scale specialized operations and farmers’ cooperatives) to meet their financing needs for agricultural planting, breeding or other manufacturing and operating activities. We have various micro loan products with different types of guarantees, primarily third-party guarantee. Our micro loans generally have a maximum credit line of RMB500,000 and a maximum term of one year. As of March 31, 2016, the average balance of each micro loan was RMB70,495.

The micro loan was the first loan product we developed after our establishment in 2007. It is also the key product we have been continuously developing. Our cooperation with GIZ on “Micro Loans and Retail Banking Business Project” won GIZ’s “The Crowning Achievement Award for International Cooperation Projects” in June 2010. In addition, we have also improved our management capability and the efficiency of our micro loan business through learning from Bank Rakyat Indonesia’s successful experience in credit staff selection and training, risk prevention and control, customer retention and other areas.

With our broad service network, advanced micro loan credit analysis techniques and the application of information technology such as our Mobile Business Development, our micro loan business has steadily developed. As of March 31, 2016, 6,563 out of our 8,301 directly-operated outlets carried out micro loan business and extended a cumulative loan amount of RMB1,168.7 billion to a cumulative number of approximately 9.20 million customers. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our micro loans were RMB123.7 billion, RMB134.5 billion, RMB136.2 billion and RMB138.9 billion, respectively, representing 16.9%, 14.0%, 11.2% and 10.7% of our total personal loans, respectively. Our micro loans grew at a CAGR of 4.9% from 2013 to 2015. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the weighted average contractual interest rate of our micro loans was 13.22%, 12.43%, 11.07% and 10.62%, respectively.

Credit Card Overdrafts and Others

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our personal credit card overdrafts and others were RMB19.1 billion, RMB30.7 billion, RMB44.5 billion and RMB45.4 billion, respectively, representing 2.6%, 3.2%, 3.6% and 3.5% of our total personal loans, respectively. Our personal credit card overdrafts and others grew at a CAGR of 52.7% from 2013 to 2015.

Personal Deposits

We offer demand and time deposits in Renminbi and major foreign currencies to our retail customers. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our personal deposits were RMB4,537.5 billion, RMB5,032.3 billion, RMB5,386.6 billion and RMB5,817.5 billion, respectively, representing 87.2%, 86.7%, 85.4% and 86.4% of our total deposits, respectively.

We have a leading position in terms of personal deposit growth. From 2013 to 2015, our personal deposits grew at a CAGR of 9.0%, which was higher than the CAGR of China's domestic personal deposits of 8.2% for the same period. According to the PBOC, our incremental personal deposits in 2015 ranked third among all PRC commercial banks in China and first among the Large Commercial Banks and the nationwide joint-stock commercial banks in Anhui, Henan, Hubei, Hunan and Chongqing. Our market share of total personal deposits increased to 9.9% as of December 31, 2015 from 9.7% as of December 31, 2013. We are the only Large Commercial Bank whose market share of personal deposits has grown in the past three years.

As of March 31, 2016, personal time deposits accounted for 63.2% of our total personal deposits, providing us a long-term and stable funding source. The table below sets forth the breakdown of our personal deposits as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Time deposit	2,745,815	60.5%	3,131,696	62.2%	3,335,615	61.9%	3,678,472	63.2%
Demand deposit	1,791,734	39.5	1,900,625	37.8	2,051,015	38.1	2,139,019	36.8
Total personal deposits	**4,537,549**	**100.0%**	**5,032,321**	**100.0%**	**5,386,630**	**100.0%**	**5,817,491**	**100.0%**

Based on the agency banking businesses framework agreement between China Post Group and us dated August 8, 2012 and September 7, 2016, respectively, agency outlets engage in taking domestic and foreign currency personal deposits for us. See "— Distribution Channels — Outlet Network — Operational Model of Directly-operated and Agency Outlets." Our agency outlets are important channels for taking personal deposits. The table below sets forth the breakdown of our personal deposits from agency outlets and directly-operated outlets as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Deposits from agency outlets	3,305,910	72.9%	3,677,186	73.1%	3,945,546	73.2%	4,279,472	73.6%
Deposits from directly-operated outlets	1,231,639	27.1	1,355,135	26.9	1,441,084	26.8	1,538,019	26.4
Total personal deposits	**4,537,549**	**100.0%**	**5,032,321**	**100.0%**	**5,386,630**	**100.0%**	**5,817,491**	**100.0%**

With the extensive agency outlet network, we can take personal deposits from retail customers in regions where we do not have directly-operated outlets, providing us a solid source of personal deposits and enabling us to obtain long-term, stable, and relatively low-cost funding in the context of interest rate liberalization. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the average cost of our personal deposits was 2.05%, 2.08%, 2.01% and 1.66%, respectively.

Our directly-operated outlets and agency outlets penetrate into 98.9% of China's County Areas. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our personal deposits from County Areas accounted for 66.2%, 66.8%, 68.3% and 69.5% of our total personal deposits, respectively.

Bank Card Business

We provide comprehensive bank card products and services to retail customers. As of March 31, 2016, we have 779.21 million debit cards and 10.46 million credit cards in circulation. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, fee and commission income from our bank card business was RMB2,496 million, RMB3,474 million, RMB4,634 million and RMB1,230 million, respectively.

The table below sets forth the numbers of bank cards in circulation as of the dates indicated.

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(in thousands)			
Number of debit cards in circulation	665,722	775,859	748,750	779,215
Number of credit cards in circulation	4,834	6,962	9,634	10,459
Total	**670,556**	**782,821**	**758,384**	**789,674**

The table below sets forth the spending amount of our bank cards for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
	(in millions of RMB)			
Spending amount of debit cards	1,111,181	1,378,084	1,736,925	654,477
Spending amount of credit cards	129,918	233,242	351,698	106,320
Total	**1,241,099**	**1,611,326**	**2,088,623**	**760,797**

Debit Card

We have an industry-leading debit card business. We issue Renminbi debit cards ("Green Card") to retail customers who open deposit accounts with us, and various co-branded cards designed and developed for specific customer groups and regions, providing comprehensive functions and services including deposit and withdrawal, consumption, transfer and remittance, self-service bill payment, collection and payment agency services and others. We are a member of China UnionPay and debit cards issued by us can be used in China UnionPay's network in China and many other countries and regions. As of March 31, 2016, the number of our debit cards in circulation was 779.21 million, ranking second among PRC commercial banks. In 2013, 2014 and 2015, total spending amount through our debit cards was RMB1,111.2 billion, RMB1,378.1 billion and RMB1,736.9 billion, respectively, representing a CAGR of 25.0% from 2013 to 2015. For the three months ended March 31, 2016, total spending amount through our debit cards was RMB654.5 billion.

Credit Card

We started our credit card business in 2008. Leveraging our extensive retail customer base and distribution network, our credit card business has developed rapidly and we have established a comprehensive product portfolio. Our credit cards include standard cards, corporate cards, co-branded cards and others, featuring various themes including tourism, family, dining and public welfare, and providing services such as revolving credit, installment consumer credit, cash advances, points redemption, payments of utilities bills and card security. Our UnionPay and MasterCard dual-branded all-currency credit cards can be used in UnionPay and MasterCard networks, support foreign-currency purchases without currency conversion fees and can be repaid in Renminbi. We focus on promoting mobile payment function of our credit cards to provide economical, convenient and efficient card services, including signature- and password-free small-amount payments with IC cards and cooperation with third-party payment channels such as Alipay, Tenpay, JD and Suning.

As of December 31, 2013, 2014 and 2015, the number of our credit cards in circulation was 4.83 million, 6.96 million and 9.63 million, respectively, representing a CAGR of 41.2% from 2013 to 2015. As of March 31, 2016, the number of our credit cards in circulation was 10.46 million. In 2013, 2014 and 2015, the spending amount of our credit cards was RMB129.9 billion, RMB233.2 billion and RMB351.7 billion, respectively, representing a CAGR of 64.5% from 2013 to 2015. For the three months ended March 31, 2016, the spending amount of our credit cards was RMB106.3 billion. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the average spending amount per card was RMB31,867, RMB40,236, RMB42,405 and RMB10,624, respectively.

Fee- and Commission-based Products and Services

We provide a series of fee- and commission-based products and services for our retail customers, primarily including settlement, collection and payment agency services, foreign exchange, wealth management, bancassurance, and distribution of fund products, PRC government bonds, precious metals and others.

Our agency outlets engage in fee- and commission-based services for us, including financial settlement services, financial agency services and other services. The revenue generated from the fee- and commission-based services provided by our agency outlets will be paid to Postal Affiliates following the principle of "fee payable to the entity providing the service." For details of the fee- and commission-based businesses provided by and the pricing policies and amount of the fee and commission income generated by our agency outlets, see "Connected Transactions." In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the net income from our personal banking fee- and commission-based businesses (including bank cards) were RMB5,998 million, RMB5,969 million, RMB7,636 million and RMB2,559 million, respectively, representing 100.6%, 92.1%, 88.1% and 86.4% of our total net fee and commission income, respectively. The net income from our personal banking fee- and commission-based businesses (including bank cards) grew at a CAGR of 12.8% from 2013 to 2015.

Personal Settlement Business

We provide various settlement services for retail customers, primarily including money transfer and Renminbi remittance services. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the transaction volume of our personal settlement business was RMB7,886.8 billion, RMB8,580.7 billion, RMB8,988.4 billion and RMB2,562.3 billion, respectively.

Collection and Payment Agency Services

We provide various collection and payment agency services for customers, primarily including payments of payrolls, benefits and allowances and pensions, as well as collection of utility bill payments. We also provide collection and payment agency services for the New Rural Social Endowment Insurance ("NSEI") and the New Rural Cooperative Medical Service ("NCMS"). In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the volume of our collection services was RMB646.1 billion, RMB813.7 billion, RMB854.7 billion and RMB171.8 billion, respectively. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the volume of our payment services was RMB1,401.7 billion, RMB1,635.4 billion, RMB1,974.1 billion and RMB541.1 billion, respectively, among which the volume of our pension payments was RMB517.7 billion, RMB587.2 billion, RMB700.8 billion and RMB173.6 billion, respectively.

Leveraging our extensive distribution network, we actively provide financial services for NSEI and NCMS. For example, in 2015, we collected 17.69 million payments of contribution to NSEI and made 256.84 million payments to pensioners of NSEI.

Personal Foreign Exchange Services

We provide international remittance and foreign exchange settlement services for retail customers. In terms of the number of transactions in 2015, our market share for Western Union money transfer was 43%, ranking first among PRC commercial banks. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the transaction volume of our international remittance services was US$3,722 million, US$3,431 million, US$3,202 million and US$775 million, respectively, and the transaction volume of our foreign exchange settlement services was US$2,714 million, US$2,609 million, US$2,443 million and US$637 million, respectively.

Personal Wealth Management Services

We provide diversified wealth management products and services for retail customers. Under the brand "PSBC Fortune* (郵銀財富)," we have launched three series of open-ended wealth management products and eight series of close-ended wealth management products, fulfilling the investment and wealth management demands of customers with different tenor preference and risk appetites. We provide comprehensive wealth management products and advisory services. Our wealth management products include fixed income products, equity investment products, and equity and debt hybrid products. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, we issued 455, 830, 1,310 and 261 wealth management products (including some products available to both retail and corporate customers), respectively, the sales volume was RMB510.0 billion, RMB772.2 billion, RMB1,074.4 billion and RMB332.8 billion, respectively, and the average daily balance was RMB96.2 billion, RMB183.3 billion, RMB301.4 billion and RMB435.6 billion, respectively. The sales volume of our wealth management products grew at a CAGR of 45.1% from 2013 to 2015. As of March 31, 2016, the balance of our Renminbi wealth management products to retail customers was RMB451.1 billion.

Agency Services

Our agency services mainly include the sales of insurance products, fund products, PRC government bonds and precious metals.

Bancassurance

We conduct our bancassurance business through our directly-operated outlets and agency outlets. As of March 31, 2016, we have signed bancassurance agreements with 60 insurance companies. By leveraging the largest and the most extensive bancassurance distribution channel in China, consisting of our directly-operated outlets and agency outlets, we believe we were the largest bancassurance distributor among PRC commercial banks from 2011 to 2015 in terms of annual total written premiums of new policies. In 2013, 2014 and 2015, total written premiums of new policies of our bancassurance business were RMB173.5 billion, RMB258.4 billion and RMB388.7 billion, respectively, representing a CAGR of 49.7% from 2013 to 2015; total written premiums of new policies distributed by our directly-operated outlets were RMB22.7 billion, RMB24.6 billion and RMB35.3 billion, respectively. For the three months ended March 31, 2016, total written premiums of new policies of our bancassurance business were RMB251.6 billion, among which RMB25.6 billion distributed by our directly-operated outlets.

Distribution of Fund Products

We distribute various fund products through multiple channels including outlets, online banking and mobile banking. As of March 31, 2016, we cooperated with 55 fund management companies and distributed 1,139 fund products. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the total volume of fund products distributed by us was RMB55.5 billion, RMB98.1 billion, RMB99.4 billion and RMB9.5 billion, respectively.

Distribution of PRC Government Bonds

We distribute certificated PRC government bonds and PRC government savings bonds (electronic). In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the total volume of PRC government bonds distributed by us was RMB32.3 billion, RMB29.2 billion, RMB26.9 billion and RMB2.3 billion, respectively.

Precious Metals Business

We trade precious metals on the Shanghai Gold Exchange on behalf of our customers. We started distributing gold and silver coins, gold and silver investment products, gold and silver crafts and other precious metal products for specialized third-party institutions since June 2014. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the transaction volume of our precious metals business was RMB69.9 billion, RMB46.9 billion, RMB36.7 billion and RMB10.6 billion, respectively.

Marketing

We adopt a matrix management structure based on retail customer groups and segments to further improve our ability to provide differentiated services and efficient management capabilities. We focus on community customers, merchants, payroll customers, pensioners and migrant workers as our base customers, ascertain the demands from different customer groups and provide differentiated products and services designed to meet those demands. For instance, we issue customized debit cards, reduce cross-region transfer fees and provide merchant discounts and overseas study financing for young customers to meet their demands. We also implement differentiated marketing strategies based on our retail customer segmentation. For ordinary customers, we take advantage of our network to provide convenient and standardized services. For VIP customers, we provide comprehensive, professional, differentiated and customized services including priority services, favorable fee rates, customized wealth management products and non-financial value-added services such as travel and medical services. We continue to improve our client managers' comprehensive service capabilities and promote product innovation. We strive to continuously improve the customer experience and increase customer retention.

We encourage cross-selling across different business lines and departments within our personal banking business. For example, we reinforce the integrated marketing of our deposit-taking and lending businesses such as ascertaining our deposit customers' demands for loan products. We attract loan customers to choose us as their major cash management bank and provide them with credit cards and wealth management products. We have also established a joint marketing mechanism for our retail and corporate banking businesses to strengthen our cross-selling and improve our marketing efficiency. For instance, by providing payroll services to government agencies and corporate customers, we acquire retail payroll customers, fulfill their financial needs and achieve synergy in the growth of corporate and retail banking businesses.

Corporate Banking Business

Overview

Corporate banking business has been a key business for us. We provide diversified financial products and services for our corporate banking customers, including corporate loans, discounted bills, corporate deposits, and fee- and commission-based products and services such as settlement, bills management, cash management, investment banking, custodian and corporate asset management. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, operating income generated from our corporate banking business was RMB28.2 billion, RMB31.5 billion, RMB33.6 billion and RMB9.0 billion, respectively, representing 19.4%, 18.1%, 17.6% and 18.9% of our total operating income, respectively. The operating income generated from our corporate banking business grew at a CAGR of 9.3% from 2013 to 2015.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate loans were RMB708.8 billion, RMB804.3 billion, RMB981.0 billion and RMB1,028.4 billion, respectively, representing 47.5%, 42.9% and 39.7% and 38.6% of our total loans, respectively. Our corporate loans grew at a CAGR of 17.6% from 2013 to 2015. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate deposits were RMB668.5 billion, RMB770.1 billion, RMB917.6 billion and RMB914.0 billion, respectively, representing 12.8%, 13.3%, 14.6% and 13.6% of our total deposits, respectively. Our corporate deposits grew at a CAGR of 17.2% from 2013 to 2015.

Customer Base

We provide financial services for a variety of corporate customers. We have established extensive business relationships with Chinese government agencies, public institutions, financial institutions, various large-sized enterprise groups, industry-leading enterprises and numerous high-quality small enterprises. As of March 31, 2016, we had 600,853 corporate customers, including 36,545 corporate loan customers.

Small enterprise customers are strategically important for our development and growth. We provide convenient and diversified financing products and financial services primarily for small enterprise customers with good reputation and good credit records. Our small enterprise customers include medium-sized, small-sized and micro-sized enterprises classified in accordance with the Classification Standards of Small and Medium Enterprises with a maximum credit line of RMB30 million for a single customer. As of March 31, 2016, we had 34,912 small enterprise customers.

Main Products and Services

Corporate Loans

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate loans were RMB708.8 billion, RMB804.3 billion, RMB981.0 billion and RMB1,028.4 billion, respectively, representing 47.5%, 42.9%, 39.7% and 38.6% of our total loans, respectively. Our corporate loans grew at a CAGR of 17.6% from 2013 to 2015. The table below sets forth our corporate loans by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Working capital loans	204,551	28.8%	241,022	30.0%	329,816	33.6%	343,510	33.4%
Fixed asset loans	488,095	68.9	510,238	63.4	551,483	56.2	562,272	54.7
Trade finance loans	14,950	2.1	51,978	6.5	98,750	10.1	121,733	11.8
Others[(1)]	1,222	0.2	1,078	0.1	931	0.1	889	0.1
Total corporate loans	**708,818**	**100.0%**	**804,316**	**100.0%**	**980,980**	**100.0%**	**1,028,404**	**100.0%**

(1) Consists of a loan asset portfolio we purchased from a PRC commercial bank in 2010.

Working Capital Loans

We provide working capital loans in Renminbi and foreign currencies for our corporate customers to meet the financing needs of their daily operations. Our working capital loans include short-term working capital loans with a term up to one year and medium-term working capital loans with a term ranging from one to three years. As of December 31, 2013, 2014 and 2015, our working capital loans were RMB204.6 billion, RMB241.0 billion and RMB329.8 billion, respectively, representing a CAGR of 27.0% from 2013 to 2015. As of March 31, 2016, our working capital loans were RMB343.5 billion.

Fixed Asset Loans

We provide fixed asset loans in Renminbi and foreign currencies for our corporate customers to meet their financing needs for various fixed asset investment projects, including capital construction projects, technology upgrade projects, property construction projects and land development projects. As of December 31, 2013, 2014 and 2015, our fixed asset loans were RMB488.1 billion, RMB510.2 billion and RMB551.5 billion, respectively, representing a CAGR of 6.3% from 2013 to 2015. As of March 31, 2016, our fixed asset loans were RMB562.3 billion.

Trade Finance

The trade finance services we provide for our corporate customers include domestic trade finance, supply chain finance and international trade finance. Our domestic trade finance services primarily include domestic letter of guarantee, domestic letter of credit, draft bills advance for buyers, reimbursement, packing loans, negotiation, draft bills advance for sellers and forfeiting (including secondary market). Our supply chain finance services cover three categories, namely receivables, prepayment and inventory, primarily including order financing, domestic factoring, loans pledged by receivables, buyer's credit, confirming warehouse financing and chattel mortgage. Our international trade finance services primarily include import bills advance, import overseas payment, packing loans, export bills advance, export overseas payment, export credit guarantee financing, export invoice financing, as well as the issuance of international letter of credit, standby letter of credit and international letter of guarantee.

We focus on providing supply chain financing services to customers upstream and downstream from our core customers in order to meet their financing and financial services needs at different segments of the supply chain. We place importance on developing high-quality and key enterprise customers in various industries, including modern agriculture, equipment manufacturing and financial leasing, by providing them with competitive industry-specific financial solutions.

As of December 31, 2013, 2014 and 2015, our trade finance loans were RMB15.0 billion, RMB52.0 billion and RMB98.8 billion, respectively, representing a CAGR of 157.0% from 2013 to 2015. As of March 31, 2016, our trade finance loans were RMB121.7 billion.

Corporate Loans to Small Enterprises

The Small Enterprise Finance Department at our head office is responsible for business expansion, product development, business operations and risk management of our corporate loans to small enterprises. In recent years, we have adopted standard processes for corporate loans to small enterprises, including application, credit investigation, credit review and approval, loan disbursement, post-loan management and risk control, which have significantly enhanced the efficiency. The standardized credit business processes and the division of responsibilities of client managers, credit approval personnel and post-loan management personnel allow us to provide small enterprise customers with specialized, efficient and comprehensive financial services.

We provide small enterprise customers at different development stages with financing solutions tailored to their stage of development. For start-up enterprises, we provide financial products under risk-sharing mechanism among government, bank and guarantee companies to diversify risk, with the support of risk compensation funds from local governments. For enterprises in the growth stage, as they have sufficient cash flows but limited assets for collateral purpose, we extend loans considering their cash flows and tax filings. For enterprises in the expansion stage, in particular those that are listed or planning to be listed on the National Equities Exchange and Quotations, we provide financial products including loans to finance listing expenses, equity pledged loans and investment-linked loans. In addition, we provide customized products for small enterprise customers in wholesale and retail, manufacturing, agriculture, forestry, animal husbandry, fishery, transportation and technology industries. We also focus on developing loan products for people's livelihood industries, including healthcare, electricity, heating power supply.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate loans to small enterprises were RMB135.5 billion, RMB154.1 billion, RMB157.2 billion and RMB160.9 billion, respectively, representing 19.1%, 19.2%, 16.0% and 15.6% of our total corporate loans, respectively. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the weighted average contractual interest rate of corporate loans to small enterprises was 7.58%, 7.63%, 6.80% and 6.53%, respectively. As of March 31, 2016, the average balance of our corporate loans to small enterprises per customer was RMB4.61 million.

The following table sets forth our corporate loans to small enterprises by industry as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Manufacturing	71,110	52.5%	81,861	53.1%	84,635	53.8%	86,131	53.5%
Wholesale and retail.	37,885	28.0	41,806	27.1	39,982	25.4	39,297	24.4
Construction	8,664	6.4	9,769	6.3	8,593	5.5	8,415	5.2
Hotels and catering	3,928	2.9	3,917	2.5	3,481	2.2	3,550	2.2
Agriculture, forestry, animal husbandry and fishery	3,834	2.8	5,226	3.4	6,387	4.1	6,321	3.9
Others	10,072	7.4	11,546	7.6	14,132	9.0	17,136	10.8
Total corporate loans to small enterprises	**135,493**	**100.0%**	**154,125**	**100.0%**	**157,210**	**100.0%**	**160,851**	**100.0%**

The following table sets forth our corporate loans to small enterprises by size as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Below RMB500,000	258	0.2%	202	0.1%	254	0.2%	420	0.3%
RMB500,000 (inclusive) to RMB1 million	2,408	1.8	2,127	1.4	2,280	1.5	2,666	1.7
RMB1 million (inclusive) to RMB3 million	27,670	20.4	27,882	18.1	27,566	17.5	35,055	21.8
RMB3 million (inclusive) to RMB5 million	60,905	45.0	64,097	41.6	54,800	34.8	40,281	25.0
RMB5 million (inclusive) to RMB10 million	18,012	13.3	24,518	15.9	33,964	21.6	50,128	31.1
RMB10 million (inclusive) to RMB20 million	26,183	19.3	32,813	21.3	32,123	20.4	23,898	14.9
Over RMB20 million (inclusive)	57	0.0	2,486	1.6	6,223	4.0	8,403	5.2
Total corporate loans to small enterprises	**135,493**	**100.0%**	**154,125**	**100.0%**	**157,210**	**100.0%**	**160,851**	**100.0%**

The following table sets forth our corporate loans to small enterprises by geographic region as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head office	—	—	—	—	—	—	—	—
Yangtze River Delta	25,963	19.2%	28,872	18.7%	30,849	19.6%	32,605	20.3%
Pearl River Delta	17,601	13.0	19,612	12.7	19,972	12.7	20,463	12.7
Bohai Rim	25,037	18.5	25,617	16.6	23,931	15.2	23,627	14.7
Central China	29,378	21.7	32,673	21.2	34,027	21.6	35,725	22.2
Western China	30,033	22.1	38,912	25.3	39,892	25.5	40,086	24.9
Northeastern China	7,481	5.5	8,439	5.5	8,539	5.4	8,345	5.2
Total corporate loans to small enterprises	**135,493**	**100.0%**	**154,125**	**100.0%**	**157,210**	**100.0%**	**160,851**	**100.0%**

Our small enterprise finance team and services have been well recognized by government agencies and the industry. In 2013 and 2014, we were named "Preferred Service Provider for SMEs" by the MIIT. In 2015, our Small Enterprise Finance Department was awarded "Outstanding Team of Financial Services for Small and Micro Enterprises among Banking Institutions in China" by the CBRC.

Discounted Bills

Our discounted bills business refers to the purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than one year at a certain discount rate. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our discounted bills were RMB50.6 billion, RMB108.4 billion, RMB268.3 billion and RMB339.3 billion, respectively, representing 3.4%, 5.8%, 10.9% and 12.7% of our total loans, respectively. Our discounted bills grew at CAGR of 130.3% from 2013 to 2015.

Corporate Deposits

We offer time and demand deposits to corporate customers in Renminbi and other major foreign currencies. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate deposits were RMB668.5 billion, RMB770.1 billion, RMB917.6 billion and RMB914.0 billion, respectively, representing 12.8%, 13.3%, 14.6% and 13.6% of our total deposits, respectively. Our corporate deposits grew at a CAGR of 17.2% from 2013 to 2015.

We focus on providing payment and settlement services to various large-sized national enterprises. By providing high-quality services, we have large amount of stable and low-cost corporate demand deposits. As of December 31, 2013, 2014 and 2015 and March 31, 2016, corporate demand deposits accounted for 74.9%, 71.9%, 67.2% and 67.9% of our total corporate deposits, respectively. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the average cost of our corporate deposits was 1.43%, 1.56%, 1.45% and 1.27%, respectively. The following table sets forth our corporate deposits by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Demand deposits	500,386	74.9%	553,671	71.9%	616,251	67.2%	620,556	67.9%
Time deposits	168,073	25.1	216,405	28.1	301,356	32.8	293,490	32.1
Total corporate deposits	**668,459**	**100.0%**	**770,076**	**100.0%**	**917,607**	**100.0%**	**914,046**	**100.0%**

Fee- and Commission-based Products and Services

We provide corporate customers with a broad range of fee- and commission-based products and services, mainly including settlement, bills management, cash management, investment banking, custodian and corporate asset management services. In 2013, we had net fee and commission expense of RMB115 million for our corporate banking business. In 2014 and 2015 and for the three months ended March 31, 2016, the net fee and commission income of our corporate banking business was RMB247 million, RMB405 million and RMB246 million, respectively, representing 3.8%, 4.7% and 8.3% of our total net fee and commission income, respectively.

Settlement Services

We offer comprehensive and convenient settlement services in China through counters and online banking system. As of March 31, 2016, we had 678,269 RMB-denominated corporate settlement accounts. In 2013, 2014 and 2015, our domestic settlement transaction volume was RMB19,443.8 billion, RMB28,550.5 billion and RMB37,754.0 billion, respectively, representing a CAGR of 39.3% from 2013 to 2015. For the three months ended March 31, 2016, our domestic settlement transaction volume was RMB14,285.5 billion.

We also provide various international trade settlement services, primarily including export letters of credit, export collection, inbound remittance, import letters of credit, import collection, outbound remittance under cross-border Renminbi and many other foreign currencies for customers who are engaged in cross-border trade. We also offer spot and forward foreign currency exchange services. In 2013, 2014 and 2015, our international settlement transaction volume was US$10.7 billion, US$14.4 billion and US$16.5 billion, respectively, representing a CAGR of 24.2% from 2013 to 2015. For the three months ended March 31, 2016, our international settlement transaction volume was US$3.7 billion.

Bills Management Services

We provide corporate customers with comprehensive bills management services, primarily including custodian, collection, information inquiry and other basic services, as well as value-added services such as bills pool financing. As of March 31, 2016, we provided comprehensive bills management services to 326 corporate customers.

Cash Management Services

We provide corporate customers with comprehensive cash management services, primarily including account management, payment management, liquidity management, investment and financing management and information management. In recent years, we have launched various cash management products such as notional account book, physical cash pooling, notional cash pooling, equal cash pooling and smart cash pooling, providing high-quality services for numerous large-sized enterprise groups and increasing brand awareness. As of March 31, 2016, we had 127,917 cash management accounts. In 2013, 2014 and 2015, the transaction volume of our cash management services was RMB7,874.5 billion, RMB12,619.2 billion and RMB21,001.5 billion, respectively, representing a CAGR of 63.3% from 2013 to 2015. For the three months ended March 31, 2016, the transaction volume of our cash management services was RMB6,230.2 billion.

Investment Banking

We provide corporate customers with underwriting and distribution services in respect of debt financing instruments including short-term commercial papers, medium-term notes, private placement notes and asset-backed securities. In 2013, 2014 and 2015, the offering size of debt financing instruments underwritten by us was RMB15.4 billion, RMB34.1 billion and RMB36.1 billion, respectively. In addition, we are able to provide corporate customers with financial advisory services in debt securities underwriting, mergers and acquisitions, restructuring, structured financing and other transactions.

Custodian Services

The assets under our custody consist primarily of securities investment funds, insurance funds, bank wealth management products, trust plans, insurance asset management plans, asset management plans for specific customers of fund companies, asset management plans for customers of securities companies and private equity funds. We provide asset custody, valuation assessment, fund clearing, investment monitoring, reporting and other services. We obtained the ISAE3402 international accreditation on internal control for our custodian services in 2013. With diversified products and professional services, our custodian business has grown rapidly. As of December 31, 2013, 2014 and 2015, the assets under our custody were RMB516.9 billion, RMB890.8 billion and RMB2,250.8 billion, respectively, representing a CAGR of 108.7% from 2013 to 2015. As of March 31, 2016, the assets under our custody were RMB2,942.3 billion.

Corporate Asset Management Services

We provide asset management services for corporate customers under the brand "PSBC Wisdom* (郵銀財智)." To cater to the financial investment needs of corporate customers, we launch RMB-denominated corporate asset management products with different maturities and yields based on market conditions and customer risk tolerance. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, we issued 149, 174, 311 and 82 corporate asset management products (including some products provided to both retail and corporate customers), respectively, the sales volume was RMB30.5 billion, RMB37.8 billion, RMB176.3 billion and RMB128.2 billion, respectively, and the daily average balance was RMB9.9 billion, RMB12.0 billion, RMB48.0 billion and RMB88.6 billion, respectively. The sales volume of our corporate asset management products grew at a CAGR of 140.4% from 2013 to 2015. As of March 31, 2016, the balance of our RMB-denominated asset management products to corporate customers was RMB126.8 billion.

Marketing

We adopt differentiated marketing strategies for different types of corporate customers. Leveraging our broad network and diversified products, we actively enhance our business relationships with institutional customers such as government agencies and public institutions. Utilizing our multi-level marketing network, we are committed to acquiring large-sized enterprise customers and industry-leading corporate customers. We proactively adapt to industrial policies of China, and focus on acquiring customers in industries such as modern agriculture, clean energy and people's livelihood. We expand our marketing efforts in industry clusters, industry chains and featured industries to acquire high-quality and fast-growing small enterprise customers.

We established the Strategic Customer Department at our head office in 2015, which is responsible for marketing and management of corporate customers with strategic value, such as government agencies, Fortune Global 500 companies, state-owned enterprises administered by the central government and other large-sized enterprise groups, as well as industry-leading enterprises. Our Small Enterprise Finance Department is responsible for marketing of small enterprise customers and committed to providing convenient and tailored services to small enterprise customers. As of March 31, 2016, we had 7,908 corporate client managers, among whom 4,840 client managers are dedicated to providing services for small enterprise customers.

We have been increasing cross-selling efforts among different business lines and departments within our corporate banking business. For example, by ascertaining our supply chain customers' demands for diversified financial services, in addition to trade finance services, we also provide them with deposit services and fee- and commission-based products and services such as bills management and cash management. We also seek to explore the potential of existing customers and develop new customers through the collaboration mechanism between corporate banking and retail banking and by offering a portfolio of products. For example, leveraging our broad outlet network, we provide collection and payment agency services for NSEI and NCMS to attract government agencies to open accounts with us. As a result, we are able to provide payment and settlement, cash management and other comprehensive financial services for them, which increases their aggregate revenue contribution to us.

Treasury Business

Our treasury business consists primarily of financial market business, including trading, investment, interbank financing and interbank bill rediscounting, as well as asset management business. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, operating income generated from our treasury business was RMB13.0 billion, RMB26.8 billion, RMB28.3 billion and RMB4.5 billion, respectively, representing 9.0%, 15.4%, 14.9% and 9.4% of our total operating income, respectively.

Financial Market Business

Overview

We have developed competitive advantages in the financial market business as demonstrated by our active presence in trading, comprehensive product portfolio, broad and high-quality customer base, and sound investment returns.

We are one of the most active participants in China's interbank market. We offer a broad range of financial market services. We have obtained various types of licenses and qualifications in China's interbank market, which allows us to engage in various market transactions and provide innovative financial services. We have developed a comprehensive product portfolio that can adapt to evolving market conditions and diverse customer needs.

Through our nine years of dedicated operations in China's financial market, we have developed a large customer base of high quality, wide coverage and extensive cooperation by leveraging our capital strength and improved customer service capabilities. As of March 31, 2016, we had established business relationships with 950 financial institutions, building up an ecosystem centered on partnership with banks and complemented by cooperation with securities firms, insurance companies, trust companies, leasing companies and finance companies.

Despite the challenges from the interest rate liberalization, financial disintermediation and volatility in the financial market, our financial market business has maintained sound investment returns and outperformed our peers in the interbank investment business in recent years.

We believe that, based on our proven strengths, our financial market business has the innovation capability and sustainability to navigate through potential challenges in the future.

Trading Business

We trade standard financial products in the interbank market for the purposes of treasury management, proprietary trading, trading on behalf of clients and risk hedging. The financial products we trade include money market products, fixed income products, foreign exchange products, derivatives and precious metals, involving 11 currencies and 20 transaction types.

Our trading business has witnessed strong volume growth in recent years with a significant increase in activity levels. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, our trading volume was RMB10,480.8 billion, RMB17,653.4 billion, RMB43,161.1 billion and RMB13,001.4 billion, respectively, and the number of transactions was 38,847, 64,385, 84,910 and 21,645, respectively. Our trading volume grew at a CAGR of 102.9% from 2013 to 2015. In 2015 and for the three months ended March 31, 2016, RMB34,352.7 billion and RMB10,315.9 billion of our total trading volume was settled through China Central Depository & Clearing Co., Ltd., respectively, ranking third and second in the market, respectively.

We have the qualifications and capacity to trade major products in Renminbi and foreign currencies in the interbank markets, and play important roles including primary dealer, market maker and probationary market maker. We provide quotations and liquidity support to the domestic bond market, foreign exchange market and other markets, playing an important role in the interbank market.

Our trading capability and performance have been well recognized by the regulatory authorities and China Foreign Exchange Trade System & National Interbank Funding Center. Since 2013, we have been named "Institution with the Greatest Market Influence" and "Best Market Making Institution" in interbank Renminbi market by National Interbank Funding Center, and "Institution with Best Compliance in Transactions" in interbank foreign exchange market by China Foreign Exchange Trade System, and several of our employees have been named "Excellent Trader-in-charge" or "Excellent Trader."

Investment Business

Investments in Debt Securities and Negotiable Certificates of Deposit

We invest in various types of debt securities in the interbank market and exchanges, primarily including government bonds, bonds issued by policy banks and commercial banks, enterprise bonds, corporate bonds, non-financial enterprise debt financing instruments, and invest in negotiable certificates of deposit. Our counterparties include various types of participants, such as commercial banks, policy banks and securities firms.

We are in a market leading position in terms of our bond investment and settlement volume. We ranked among the top six in China's interbank market in terms of the size of our bond investment portfolio as of December 31, 2013, 2014 and 2015. According to China Government Securities Depository Trust & Clearing Co. Ltd., we consistently ranked among the top ten in China's interbank market in terms of our bond settlement volume from 2011 to 2015. In 2015, our settlement volume of Renminbi bonds accounted for over 5% of the total bond settlement volume in China's interbank market, ranking third in the market. We are a Class A syndicate member for government bonds and a syndicate member for financial bonds issued by China Development Bank, The Export-Import Bank of China, and Agricultural Development Bank of China.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments in debt securities and negotiable certificates of deposit were RMB1,123.5 billion, RMB1,095.7 billion, RMB1,893.4 billion and RMB1,948.8 billion, respectively. In 2013, 2014 and 2015 and for the three months ended

March 31, 2016, our interest income from debt securities and negotiable certificates of deposit investments was RMB46.6 billion, RMB44.0 billion, RMB46.2 billion and RMB16.5 billion, respectively. The following table sets forth our investments in debt securities and negotiable certificates of deposit by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Government bonds	362,162	32.3%	346,391	31.7%	396,339	20.9%	404,766	20.8%
Debt securities issued by public institutions and quasi-government(1)	1,423	0.1	1,429	0.1	570	0.0	570	0.0
Debt securities issued by financial institutions(2)	709,026	63.1	674,959	61.6	1,408,485	74.4	1,417,482	72.7
Debt securities issued by corporates	50,839	4.5	71,484	6.5	69,458	3.7	70,132	3.6
Negotiable certificates of deposit	—	—	1,474	0.1	18,526	1.0	55,827	2.9
Total	**1,123,450**	**100.0%**	**1,095,737**	**100.0%**	**1,893,378**	**100.0%**	**1,948,777**	**100.0%**

(1) Consists primarily of debt securities issued by Huijin.

(2) Includes long-term special financial bonds with an aggregate principal of RMB778.0 billion issued by China Development Bank and Agricultural Development Bank of China that we purchased in the second half of 2015. For more details, see "Assets and Liabilities — Assets — Investment Securities and Other Financial Assets."

We pay close attention to changes in the credit status of debt securities and negotiable certificates of deposit, closely follow and analyze market risks including changes in benchmark interest rates and adjust our investment strategies as appropriate. For more details, see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Risk Management for Treasury Business — Credit Risk Management of Debt Securities and Negotiable Certificates of Deposit" and "Risk Management — Market Risk Management."

Interbank Investments

We actively develop our interbank investment business to meet evolving financing demands arising from the transformation of China's economy.

We conduct interbank investment business by investing (or investing through other financial institutions) in special purpose vehicles (including commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds) according to our investment strategies, our risk appetite and market conditions. We conduct our interbank investment business in compliance with relevant regulations and rules promulgated by China's regulatory authorities. For the risks associated with our interbank investment business, see "Risk Factors — Risks Related to Our Business — We are exposed to risks relating to our investments in special purpose vehicles."

We have a dedicated interbank investment team and investment methodologies well-adapted to the evolving market demands. We have been at the forefront in developing major investment methodologies and innovating products in the interbank investment market with our strong innovation capabilities, leading growth potential and efficient operational management. At the same time, based on our market insight, we have formulated profit strategy covering investment, trading and arbitrage, which allows us to capture different investment opportunities in the market and generate higher investment returns with manageable risks.

As of March 31, 2016, our interbank investment products covered commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds, and we directly cooperated with 165 interbank investment counterparties. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments (including investments through other financial institutions) in commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds were RMB151.7 billion, RMB482.5 billion, RMB1,086.4 billion and RMB952.7 billion, respectively, representing 2.7%, 7.7%, 14.9% and 12.4% of our total assets, respectively. Our interbank investments grew at a CAGR of 167.6% from 2013 to 2015. The following table sets forth our interbank investments by product type as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Commercial bank wealth management products	64,225	42.3%	162,150	33.6%	326,581	30.0%	349,209	36.7%
Trust investment plans	7,987	5.3	96,597	20.0	228,317	21.0	163,863	17.2
Asset management plans	79,486	52.4	223,781	46.4	285,426	26.3	282,274	29.6
Securities investment funds(1)	—	—	—	—	246,103	22.7	157,356	16.5
Total	**151,698**	**100.0%**	**482,528**	**100.0%**	**1,086,427**	**100.0%**	**952,702**	**100.0%**

(1) Consists of the money market funds in which we invest. We started to invest in money market fund products which usually have good liquidity and low risks in 2015.

In 2013, 2014 and 2015 and for the three months ended March 31, 2016, our interest income from interbank investments was RMB2.5 billion, RMB15.3 billion, RMB35.5 billion and RMB10.7 billion, respectively, representing 1.0%, 5.4%, 11.8% and 14.8% of our total interest income, respectively, and the average interest yields on such investments were 5.53%, 6.56%, 6.13% and 5.16% (on an annualized basis), respectively. During the Track Record Period, all the investment principal and returns on those interbank investments were paid to us when due without any default.

The following table sets forth the breakdown of our investments in trust investment plans and asset management plans by the type of security interest as of the date indicated.

	As of March 31, 2016			
	Trust investment plans	Asset management plans	Total	% of total
	(in millions of RMB, except percentages)			
Pledged by certificates of deposit	4,898	199	5,097	1.1%
Guaranteed by or credit of financial institutions	27,486	198,742	226,228	50.7
Guaranteed by corporates	249	13,840	14,089	3.2
Backed by non-certificates-of-deposit assets	131,230	69,493	200,723	45.0
Total	**163,863**	**282,274**	**446,137**	**100.0%**

The following table sets forth the breakdown of our investments in trust investment plans and asset management plans by industry as of the date indicated.

	As of March 31, 2016			
	Trust investment plans	Asset management plans	Total	% of total
	(in millions of RMB, except percentages)			
Public facilities management	22,251	36,887	59,138	13.2%
Real estate and construction	6,024	15,447	21,471	4.8
Manufacturing	3,318	1,550	4,868	1.1
Production and supply of electricity, gas and water	1,234	14,505	15,739	3.5
Financial services	127,942	196,693	324,635	72.8
Mining	597	3,233	3,830	0.9
Leasing and commercial services	2,062	11,293	13,355	3.0
Hotels, catering, culture and tourism	435	2,666	3,101	0.7
Total	**163,863**	**282,274**	**446,137**	**100.0%**

The underlying assets of the trust investment plans and asset management plans which we invest in primarily include:

- *Asset-backed securities.* Such products comply with the requirements of relevant regulatory authorities, including CBRC and CSRC. We generally invest in such underlying assets which have a rating of "AA-" or above and are not subordinated tranches;

- *Portfolio wealth management products*. Such portfolio wealth management products are managed by trust companies, securities companies and insurance asset management companies which actively exercise investment discretion. Such products primarily invest in bonds with a rating of "AA-" or above, bank deposits and fixed-income credit assets. Such underlying assets in which we invest are under stringent supervision of relevant regulatory authorities. In addition, we take risk management measures for the trust investment plans and asset management plans investing in such underlying assets, including (i) imposing eligibility requirements for the financial institutions that manage such portfolio wealth management products, (ii) imposing restrictions on the investment activities in contracts (for example, setting limits for the investment scope), and (iii) continually monitoring and supervising during the investment term.

- *Bank deposits, beneficiary rights of margin financing and securities lending and fixed-income credit assets*. We conduct internal rating and implement standardized credit management for the entities that ultimately bear the credit risk of such underlying assets. The liquidity and investment terms of such trust investment plans and asset management plans are considered in our bank-wide assets and liabilities management. Bank deposits and beneficiary rights of margin financing and securities lending are all backed by credit of financial institutions. A portion of the fixed-income credit assets are backed by credit of financial institutions or pledged by certificates of deposit, and the remaining part is subject to our unified credit management for corporate borrowers. The fixed-income credit assets are required to be extended to industries in compliance with the government's industry guidelines and regulatory requirements; and

- *Securities-backed lending assets*. Such underlying assets are secured primarily by exchange-listed stocks as collateral. We set stringent collateral coverage ratios and conduct daily monitoring on the prices of the exchange-listed stocks through securities companies.

During the Track Record Period, all of the principal of, and returns on, our investments in trust investment plans and asset management plans were paid to us when due without default.

The following table sets forth the breakdown of our investments in trust investment plans and asset management plans in terms of underlying assets as of the date indicated.

	As of March 31, 2016			
	Trust investment plans	Asset management plans	Total	% of total
	(in millions of RMB, except percentages)			
Asset-backed securities	62,294	27,509	89,803	20.1%
Portfolio wealth management products	38,859	32,488	71,347	16.0
Bank deposits	—	83,356	83,356	18.7
Beneficiary rights of margin financing and securities lending	—	53,190	53,190	11.9
Fixed-income credit assets[1]	49,501	85,312	134,813	30.2
Securities-backed lending assets	13,209	419	13,628	3.1
Total	**163,863**	**282,274**	**446,137**	**100.0%**

(1) Fixed-income credit assets primarily include debt investment schemes originated by insurance asset management companies, trust loans and entrusted loans.

The following table sets forth our investments in commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds by remaining maturity as of the date indicated.

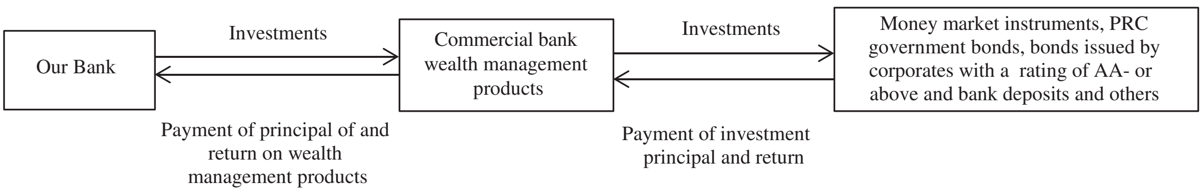
	As of March 31, 2016					
	Commercial bank wealth management products	Trust investment plans	Asset management plans	Securities investment funds	Total	% of total
	(in millions of RMB, except percentages)					
On demand	—	—	—	157,356	157,356	16.5%
Due in up to 1 month (inclusive)	79,280	3,798	8,149	—	91,227	9.6
Due in over 1 month up to 3 months (inclusive)	122,599	17,680	45,472	—	185,751	19.5
Due in over 3 months up to 1 year (inclusive)	117,938	42,114	63,370	—	223,422	23.5
Due in over 1 year up to 5 years (inclusive)	29,392	84,829	146,330	—	260,551	27.3
Due in over 5 years	—	15,442	18,953	—	34,395	3.6
Total	**349,209**	**163,863**	**282,274**	**157,356**	**952,702**	**100.0%**

The liquidity of our interbank investment assets is relatively high. As of March 31, 2016, our interbank investment products with a remaining maturity of up to three months (inclusive) and up to one year (inclusive) represented 45.6% and 69.1% of our total interbank investments, respectively. In addition, our interbank investments are included in bank-wide unified liquidity risk management system.

In April 2014, the CBRC and other government authorities jointly promulgated the Notice on the Regulation of Interbank Business of Financial Institutions* (關於規範金融機構同業業務的通知) ("Circular 127"), which stipulates that financial institutions engaging in interbank investment business may not accept or provide any direct or indirect, explicit or implicit credit guarantee from or to any third-party financial institution unless otherwise stipulated by government authorities. Since Circular 127 came into force, our interbank investment business complied with the relevant rules under Circular 127. As a result, we no longer accept or provide any credit guarantees that are in violation of Circular 127 from or to third-party financial institutions in our interbank investment business. For details of Circular 127, see "Supervision and Regulation — Regulation on Major Business of Commercial Banks — Interbank Business."

Commercial Bank Wealth Management Products

We invest in wealth management products issued by other PRC commercial banks. Such commercial banks invest the proceeds from wealth management products in financial assets including money market instruments, government bonds, bonds issued by corporations with a rating of "AA-" or above and bank deposits, among others. Currently, commercial bank wealth management products are strictly regulated. These products have manageable risks and stable investment yields. The following chart illustrates our investments in commercial bank wealth management products.



As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments in commercial bank wealth management products were RMB64.2 billion, RMB162.2 billion, RMB326.6 billion and RMB349.2 billion, respectively.

All the counterparties of commercial bank wealth management products in which we invest are subject to the supervision and regulation by the PBOC, the CBRC and other relevant authorities. These counterparties have the qualifications required to issue wealth management products and have extensive experience in managing wealth management products.

We have adopted the following measures to control the investment risks of commercial bank wealth management products:

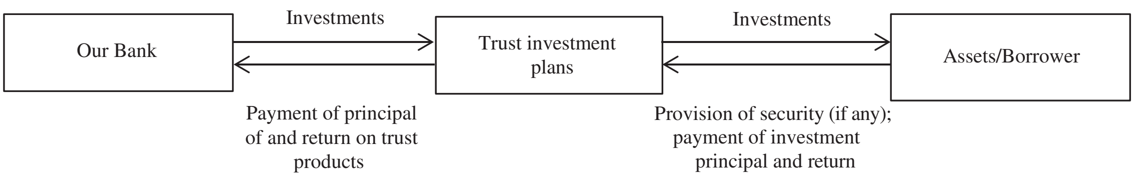
- We manage risk of commercial bank wealth management products centrally at our head office, which is responsible for the centralized approval and management of such investments.

- We evaluate the conditions of operations, financial performance, compliance with regulatory indicators, risk events and other factors of the commercial banks issuing the wealth management products, and allocate our investments in consideration of their asset management capabilities and investment scope of their wealth management products.

Trust Investment Plans

Trust investment plans are financial products representing the beneficiary rights of a trust plan which is initiated, established and managed by a trust company. We believe that such financial products have manageable risks and stable investment yields and are in compliance with regulatory policies. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments in trust investment plans were RMB8.0 billion, RMB96.6 billion, RMB228.3 billion and RMB163.9 billion, respectively.

The investments made by trust investment plans are secured by mortgages, pledges, irrevocable joint and several guarantees provided by guarantors to the trust investment plans. The following chart illustrates our investments in trust investment plans.



Pursuant to the requirements of the Trust Law of the People's Republic of China* (中華人民共和國信託法), the trust property is independent of the property owned by a trustee and may not be included in the property owned by the trustee or become a part of the property owned by the trustee. Therefore, any amounts realized from security rights of a trust investment plan may not be used to repay the trustee's own debt. Even if the trustee encounters financial difficulties, the security rights of the trust assets and the trust plans in which we have invested will not be affected.

All the counterparties of trust investment plans in which we invest are subject to the supervision and regulation by the CBRC and other relevant regulatory authorities and have qualifications required to manage trust plans. Most of our counterparties are reputable and experienced in managing trust investment plans and have solid track records. As of March 31, 2016, our investments in the trust investment plans managed by our top five counterparties were RMB88.0 billion, representing 53.7% of the total balance of our investments in trust investment plans.

We have adopted the following measures to control investment risks of trust investment plans:

- We manage risks of trust investment plans centrally at our head office, which is responsible for the centralized approval and management of such investments.
- Prior to investing in a trust investment plan, the investment team is required to conduct business due diligence and feasibility studies. Our Legal and Compliance Department is responsible for reviewing relevant legal documents. The risk control team of our Financial Markets Department is required to assess the investment risks and propose risk control requests.
- Upon the completion of various review procedures, the proposed investment plan is submitted to authorized personnel for approval.

In the event that the trustee fails to collect the contractual returns and our investment principal in full, we have the right to require the trustee to actively take actions, such as urging the borrower or the guarantor to fulfill their obligations or filing a lawsuit in order to reduce our loss. In addition, we will exercise our rights to recover our loss from credit enhancement providers.

During the Track Record Period, we realized stable investment returns from all of our investments in trust investment plans without any default in principal and interest repayments. During the Track Record Period, we had no loss arising from our investments in trust investment plans.

Asset Management Plans

We invest in asset management plans issued by securities firms and their subsidiaries, fund management companies and their subsidiaries, and insurance asset management companies. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments in asset management plans were RMB79.5 billion, RMB223.8 billion, RMB285.4 billion and RMB282.3 billion, respectively.

We enter into asset management agreements with reputable counterparties to define the investment scope of asset management plans. All the asset managers are subject to the supervision and regulation by the CSRC, CIRC or other relevant regulatory authorities. All of them have required qualifications for managing asset management plans and are well recognized in their industries. As of March 31, 2016, our investments in the asset management plans operated by our top five counterparties were RMB101.5 billion, representing 36.0% of the total balance of our investments in asset management plans.

We have adopted the following measures to control investment risks of asset management plans:

- We conduct comprehensive assessments on the investment scope of the asset management plans, and manage risks of asset management plans centrally at our head office, which is responsible for the centralized approval and management of such investments.

- Prior to investing in an asset management plan, the investment team is required to conduct business due diligence and feasibility studies. The contracts related to investments in the asset management plans shall be reviewed and approved by our Legal and Compliance Department. The risk control team of our Financial Markets Department is responsible for reviewing the business plan.

- Upon the completion of various review procedures, the proposed investment plan shall be submitted to authorized personnel for approval.

Securities firms and their subsidiaries, fund management companies and their subsidiaries or insurance asset management companies are responsible for our losses caused by their failure to manage our funds in accordance with the terms and conditions of asset management agreements. In the event that the asset managers fail to pay contractual returns and investment principal in full, we have the right to require such asset managers to take affirmative actions in order to mitigate our losses.

During the Track Record Period, we realized stable investment returns from all of our investments in asset management plans and were paid with principal and interest on time.

Securities Investment Funds

Our investments in securities investment funds consist primarily of money market funds, which invest in low-risk assets such as cash, bank deposits, bond repurchases, PBOC bills, negotiable certificates of deposit, bonds, debt financing instruments issued by non-financial institutions and asset-backed securities. As of December 31, 2015 and March 31, 2016, our investments in securities investment funds were RMB246.1 billion and RMB157.4 billion, respectively.

Pursuant to the Measures for the Supervision and Administration of Money Market Funds* (貨幣市場基金監督管理辦法) issued by the CSRC, money market funds must make investments in strict compliance with the requirements thereunder and the agreed investment scope and proportion under fund management agreements. Fund managers or custodians shall be severally responsible for any losses of fund holders in the event that fund managers or custodians fail to comply with relevant laws and regulations or fail to perform in accordance with fund management agreements.

All our counterparties of securities investment funds in which we invest are subject to the supervision and regulation by the CSRC and other relevant regulatory authorities, and have the required qualifications for mutual fund offerings. These counterparties have extensive experience, solid performance track records and good reputation in the industry.

We have adopted the following measures to manage investment risks of securities investment funds:

- We manage risks of securities investment funds centrally at our head office, which is solely responsible for the approval and management of such investments.

- We maintain a list of qualified fund managers based on operating performance and assets under management. The size of assets under management in the previous quarter of qualified fund managers should rank among the top 50% in the industry.

- The investment team is required to understand the operations, historical performance, investment scope and investment strategies of the fund managers. The risk control team of our Financial Markets Department shall review and evaluate the business plan. Upon the completion of review and evaluation, the proposed investment plan is submitted to authorized personnel for approval.

- We establish a regular communication mechanism with fund managers and adjust our allocation of securities investment funds according to their performance.

Interbank Financing

Interbank financing is a strategic business for us to enhance cooperation with financial institutions, and is also a business where we have inherent advantages and significant market influence. We have engaged in the interbank financing business for many years and have close cooperation with various financial institutions and accumulated a diversified customer base in China. Our interbank financing business provides us with access to product portfolios with different maturities and fund flows, enabling us to meet the needs of different customers by matching liabilities with assets.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our deposits and placements with banks and other financial institutions were RMB1,138.1 billion, RMB844.0 billion, RMB524.6 billion and RMB452.5 billion, respectively, representing 20.4%, 13.4%, 7.2% and 5.9% of our total assets, respectively. As of the same dates, our deposits and placements from banks and other financial institutions were RMB37.4 billion, RMB58.9 billion, RMB162.2 billion and RMB271.8 billion, respectively, representing 0.7%, 1.0%, 2.3% and 3.7% of our total liabilities, respectively.

Interbank Bill Rediscounting Business

Our interbank bill rediscounting business includes forfeiting, bills purchased under resale agreements, outright sale of bills and bills sold under repurchase agreements. Our interbank bill rediscounting business had large trading volumes and strong pricing capabilities. In 2013, 2014 and 2015 and for the three months ended March 31, 2016, the transaction volume of our interbank bill rediscounting business was RMB4,475.2 billion, RMB2,984.1 billion, RMB2,678.5 billion and RMB577.7 billion, respectively.

We have centralized approval authority at our head office, standardized credit management and maintained a counterparty name list for our interbank bill rediscounting business. We have strengthened daily risk monitoring through our commercial bill management system. We intend to focus on developing our electronic bill business which has relatively low risk.

Asset Management Business

We manage proceeds raised from wealth management products issued to retail and corporate customers. We have launched two product lines, "PSBC Fortune" for retail customers and "PSBC Wisdom" for corporate customers, tailored to meet the diversified investment and wealth management needs of our customers with different risk appetite. The number and volume of our Renminbi wealth management products have grown rapidly for eight consecutive years since 2008. In 2013, 2014 and 2015, we issued 550, 1,000 and 1,616 tranches of wealth management products, respectively, representing a CAGR of 71.4% from 2013 to 2015. Proceeds raised from these products were RMB540.5 billion, RMB810.0 billion and RMB1,250.7 billion, respectively, representing a CAGR of 52.1% from 2013 to 2015. For the three months ended March 31, 2016, we issued 340 tranches of wealth management products and proceeds raised from these products were RMB461.0 billion. The following table sets forth the distribution of wealth management products issued by us by the size of each tranche for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,	
	2013		2014		2015		2016	
	Number of tranches	Amount of proceeds	Number of tranches	Amount of proceeds	Number of tranches	Amount of proceeds	Number of tranches	Amount of proceeds
	(in millions of RMB, except number of tranches)							
Up to RMB10 million	11	74	6	17	4	21	4	18
Over RMB10 million up to RMB50 million	53	1,812	107	4,286	329	13,551	78	3,024
Over RMB50 million up to RMB100 million	52	4,240	174	14,851	372	33,976	60	5,042
Over RMB100 million up to RMB500 million	284	93,819	469	140,496	725	207,683	154	38,306
Over RMB500 million	150	440,589	244	650,377	186	995,514	44	414,636
Total	**550**	**540,534**	**1,000**	**810,027**	**1,616**	**1,250,745**	**340**	**461,026**

Benefiting from our outlet network, prudent investment strategies and stable investment returns, our asset management business has a solid customer base with access to ample funding. As of March 31, 2016, we had 6.78 million wealth management customers.

We provide principal-guaranteed and non-principal-guaranteed wealth management products. As of March 31, 2016, the amount of the principal-guaranteed and non-principal-guaranteed wealth management products under our management was RMB5.9 billion and RMB571.9 billion, respectively. Our wealth management product descriptions provide the following material terms: (i) basic information of a wealth management product, such as term of product, risk level, size of issuance, eligible investors, minimum investment amount, expected investment yields, fees and right of early termination, (ii) underlying investment products, (iii) management fees and analysis and calculation of investment yields, and (iv) information disclosure. In addition, we make specific risk warnings to investors in our wealth management product descriptions with respect to (i) the risk level of a wealth management product, (ii) the investment risks, and (iii) the fact that the expected investment yields do not represent the actual yields that investors may receive and we do not make any undertaking on any investment yields.

We have a professional investment team and have established an investment management system covering a variety of investment products with diversified allocation strategies. We invest the proceeds raised from our wealth management products in various financial products such as money market instruments and bonds, bank deposits, wealth management products, interbank borrowings, non-standard credit assets and equity products. We have been increasing the types of instruments offered. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investments in non-standard credit assets accounted for 8.3%, 2.4%, 4.4% and 6.6% of our total investment balance using proceeds raised from our wealth management products, respectively, and accounted for 0.2%, 0.1%, 0.3% and 0.5% of our total assets as of the end of the previous year, respectively, both in compliance with the CBRC requirements. The following table sets forth the distribution of our wealth management products by underlying assets as of the dates indicated.

	As of December 31,						**As of March 31,**	
	2013		**2014**		**2015**		**2016**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(in millions of RMB, except percentages)							
Money market instruments and bonds	88,210	65.4%	194,329	77.7%	406,214	85.6%	488,988	84.6%
Bank deposits, wealth management products and interbank borrowings	34,860	25.9	48,207	19.3	41,794	8.8	42,615	7.4
Non-standard credit assets	11,188	8.3	5,970	2.4	20,844	4.4	37,974	6.6
Equity products	582	0.4	1,597	0.6	5,787	1.2	8,239	1.4
Total	**134,840**	**100.0%**	**250,103**	**100.0%**	**474,639**	**100.0%**	**577,816**	**100.0%**

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) promulgated by the CBRC in 2011, our wealth management products are divided into five categories from Level 1 to Level 5 based on the level of repayment risk. According to the risk matching principle, risk levels of wealth management products should match customers' risk tolerance. Among the risk levels, products with risk Level 1 are principal-guaranteed and products with risk Level 2 or above are non-principal-guaranteed. Most of our wealth management products are classified as risk Level 2. The following table sets forth the distribution by risk level of total amounts of wealth management products issued by us for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Risk level:								
Level 1 (low risk)	—	—	—	—	9,293	0.7%	597	0.1%
Level 2 (medium low risk)	540,534	100.0%	810,027	100.0%	1,239,832	99.2	460,011	99.8
Level 3 (medium risk)	—	—	—	—	—	—	416	0.1
Level 4 (medium high risk)	—	—	—	—	11	0.0	—	—
Level 5 (high risk)	—	—	—	—	1,609	0.1	2	0.0
Total	**540,534**	**100.0%**	**810,027**	**100.0%**	**1,250,745**	**100.0%**	**461,026**	**100.0%**

As of December 31, 2013, 2014 and 2015 and March 31, 2016, the terms of the wealth management products we issued generally ranged from one month to one year, with a majority ranging from three months to one year. During the Track Record Period and as of the Latest Practicable Date, all wealth management products issued by us had been under normal operations, and principal and interest had been duly repaid without any default.

To faciliate the development of our asset management business, we have established a two-tiered risk control system consisting of risk management positions in the asset management department and bank-wide risk limit management to achieve risk isolation between on- and off-balance sheet items and to continuously improve our risk management for this business. In accordance with the requirements of the CBRC, we manage each wealth management product independently through separate accounts and book keeping systems, with each wealth management product corresponding to its underlying investments.

PSBC Consumer Finance

Our subsidiary, PSBC Consumer Finance, was incorporated in November 2015. As of March 31, 2016, we held a 61.5% equity interest and DBS Bank held a 12.0% equity interest of PSBC Consumer Finance. PSBC Consumer Finance is dedicated to providing a variety of consumer financing services to customers. As of March 31, 2016, PSBC Consumer Finance had total loans of RMB481.83 million, total assets of RMB1.02 billion and 12,821 customers.

PRICING POLICY

Our Assets and Liabilities Department and Financial Management Department are responsible for formulating pricing policies. According to relevant regulatory requirements, we take into account various factors when setting or adjusting prices, including benchmark rates and floating range set by the PBOC, capital cost, management cost, risk and expected return. In addition, we also consider the overall market conditions and prices of similar products and services offered by our competitors.

Loans

Prior to July 20, 2013, we generally set the interest rates we charged on RMB-denominated loans based on the PBOC benchmark rates. At that time, interest rates on RMB-denominated Corporate loans and personal loans were required to be no lower than 70% of the relevant PBOC benchmark rates. On July 20, 2013, the PBOC removed all restrictions on interest rates for loans offered by financial institutions except for residential mortgage loans, and abolished the floor rates for RMB-denominated loans. Pursuant to the current PBOC rules, we may set interest rates on loans other than residential mortgage loans through commercial negotiations. With respect to interest rates on residential mortgage loans used to finance retail customers' purchases of their first residential properties, under a notice issued by the State Council effective October 27, 2008, we may set interest rates at no lower than 70% of the PBOC benchmark interest rates for the same period. Effective April 15, 2010, we may set interest rates on residential mortgage loans to finance our customers' purchases of a second residential property at no lower than 110% of the PBOC benchmark interest rates. For details, see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits."

When determining the interest rates of loans, we generally take into consideration factors such as each borrower's financial condition and credit rating, the nature and value of the collateral, loan term, market conditions, as well as our cost of capital, management cost, risks and expected rates of return.

Deposits

Effective October 24, 2015, the PBOC removed the cap on the interest rates on deposits and allowed banks to set deposit interest rates based on commercial considerations. In addition, commercial banks are currently permitted to determine the interest rates on foreign currency-denominated deposits. However, PRC residents' deposits denominated in U.S. dollars, Euros, Japanese yen and Hong Kong dollars which have a term of one year or less and have the amount of US$3 million or less are not allowed to exceed the interest rate ceiling for small foreign currency-denominated deposits set by the PBOC. For details, see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits."

Fee- and Commission-based Services

We set prices on fee- and commission-based services pursuant to PRC government's guidelines. For example, the price of Renminbi settlement services is set by the CBRC and NDRC. For details, see "Supervision and Regulation — Pricing of Products and Services — Pricing of Products and Services based on Fees and Commissions." We usually set or adjust the fees and commissions for other products and services based on our service cost, prices of similar products and services offered by our competitors, customer demand and recognition of our service quality, our relationships with customers and our expected return.

DISTRIBUTION CHANNELS

We provide products and services through various distribution channels, including outlet network and electronic banking channels. As of March 31, 2016, we had 40,057 outlets consisting of directly-operated outlets and agency outlets, as well as 107,443 self-service terminals. We also have electronic banking channels such as online banking, mobile banking, self-service banking, telephone banking, TV banking and "Weibank." Our outlets and electronic banking channels enable us to effectively provide high-quality services to our customers.

Head Office, Branches and Sub-branches

Our bank-wide management and operation is directed from our head office located in Beijing. We have established tier-1 branches in the capital cities of provinces and autonomous regions, municipalities and cities with independent planning status. As the operation management center within the corresponding regions, tier-1 branches are responsible for managing all branches and sub-branches in their responsible areas and directly report to our head office. Tier-2 branches are generally set up in the prefecture-level cities in provinces and autonomous regions. In addition to their operation management functions, tier-2 branches are also responsible for managing lower-level branches and sub-branches, and report to the tier-1 branches in their respective regions. Our tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. Our tier-2 sub-branches primarily undertake the function of business operation. The table below sets forth the number of our branches and sub-branches as of the date indicated.

	As of March 31, 2016
Tier-1 branches	36
Tier-2 branches	319
Tier-1 sub-branches	2,085
Tier-2 sub-branches and others	6,157
Total	**8,597**(1)

(1) Includes 8,301 outlets.

Outlet Network

Operational Model of Directly-operated Outlets and Agency Outlets

Since our establishment in 2007, we have established a business model operating through both directly-operated outlets and agency outlets upon approvals of the State Council and the CBRC. We are the only bank in China permitted to entrust a non-commercial banking enterprise to carry out commercial banking business, making our principal-agent relationship with Postal Affiliates unique. Under our exclusive arrangement with Postal Affiliates, Postal Affiliates may not operate commercial banking businesses other than those we entrust, and we are not entitled to authorize other enterprises or individuals to operate commercial banking businesses without regulatory approval. Agency outlets carry out businesses under our name. For regulations related to agency outlets, see "Supervision and Regulation — Industry Access Requirements — Branches and Business Network."

We and China Post Group established a set of nationwide entrustment and agency management rules and procedures. We and China Post Group entered into an agency banking businesses framework agreement on August 8, 2012, which was replaced by the new agency banking businesses framework agreement dated September 7, 2016. Our branches and the Postal Affiliates also entered into separate agency agreements at various levels, specifying the principal-agent relationship as well as the rights, responsibilities and obligations of both parties. The agency outlets are located at operating premises of Postal Affiliates, and the personnel and properties of agency outlets are employed and owned by Postal Affiliates. The Postal Affiliates directly manage the agency outlets' daily operation. We provide guidance on, inspect and supervise the business development, institutional management, personnel management and risk management of agency outlets. The Postal Affiliates shall be liable for the losses caused by legal proceedings involved by, or mistakes made by, agency outlets, except that we are liable for the losses caused by reasons attributable to our Bank, such as the deficiencies in our rules and procedures. The Postal Affiliates shall be liable for the losses caused by fines or confiscation of illegal gains due to agency outlets' non-compliance incidents or violations of laws. We pay agency fees to Postal Affiliates, including deposit agency fees and fee and commission expenses related to fee- and commission-based businesses such as agency and settlement services. The agency fees we pay to Postal Affiliates are determined based on the personal deposits we take through agency outlets and the volume of fee- and commission-based businesses performed by agency outlets. For details of the scope of agency banking businesses and pricing policies and amount of agency fees, see "Connected Transactions."

Our directly-operated outlets provide customers with a full range of financial services including a variety of loans, deposits and fee- and commission-based products and services. Upon our entrustment, agency outlets provide us with deposits taking, financial settlement, financial agency services and other services.

Leveraging our operational model of directly-operated outlets and agency outlets, we have a distribution network with the largest number of outlets among PRC commercial banks. As of March 31, 2016, we had 40,057 outlets, including 8,301 directly-operated outlets and 31,756 agency outlets. Through taking deposits, agency outlets provide a long-term, stable and low-cost funding source for us. As of December 31, 2013, 2014 and 2015 and March 31, 2016, personal deposits taken by our agency outlets accounted for 72.9%, 73.1%, 73.2% and 73.6% of our total personal deposits, respectively.

Our outlet network is geographically balanced. We are one of the major commercial banks in Urban Areas and retain a high network penetration rate in Central China, Western China and County Areas where significant financial demands have not been met. As of March 31, 2016, we had 22,244 outlets in Central China and Western China, accounting for 55.5% of our total outlets; 28,519 outlets in County Areas, accounting for 71.2% of our total outlets; and over 150,000 cash withdrawal service points for farmers in the County Areas. Cash withdrawal service points for farmers are not our outlets, but our designated cooperation merchants, where we deploy debit card terminals to provide small amount withdrawal and balance inquiry services for our debit card customers.

Directly-operated Outlets

As of March 31, 2016, we had 8,301 directly-operated outlets. The table below sets forth the number of our directly-operated outlets by region as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Head office	—	—	—	—	—	—	—	—
Yangtze River Delta	928	11.5%	943	11.4%	962	11.6%	960	11.6%
Pearl River Delta	738	9.1	757	9.2	788	9.5	788	9.5
Bohai Rim	1,190	14.7	1,205	14.6	1,189	14.3	1,189	14.3
Central China	2,250	27.7	2,283	27.7	2,293	27.6	2,292	27.6
Western China	2,117	26.1	2,182	26.4	2,174	26.2	2,174	26.2
Northeastern China	885	10.9	887	10.7	900	10.8	898	10.8
Total	**8,108**	**100.0%**	**8,257**	**100.0%**	**8,306**	**100.0%**	**8,301**	**100.0%**

Our outlets located in County Areas accounted for a larger proportion of our total directly-operated outlets than that of outlets in Urban Areas. The table below sets forth the number of our directly-operated outlets located in County Areas and Urban Areas as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
County Areas	4,578	56.5%	4,671	56.6%	4,708	56.7%	4,707	56.7%
Urban Areas	3,530	43.5	3,586	43.4	3,598	43.3	3,594	43.3
Total	**8,108**	**100.0%**	**8,257**	**100.0%**	**8,306**	**100.0%**	**8,301**	**100.0%**

We have developed some of our directly-operated outlets into specialized sub-branches focusing on certain types of loan business to provide professional and efficient services to our customers. We establish consumer finance centers and specialized branches focusing on auto loans by taking into consideration regional and business characteristics. As of March 31, 2016, we had established over 500 specialized sub-branches focusing on personal business loans and corporate loans to small enterprises, which contribute to the further development of customers in industry clusters, industry supply chains and industries with local economic characteristics. As of March 31, 2016, based on 283 national modern agricultural demonstration zones, we established 551 modern agricultural demonstration zone sub-branches, which focus on providing services for new-type agricultural operators such as family farms and farmers' cooperatives to strengthen our core competitiveness in serving the financial needs of modern agricultural industry.

We actively improve the marketing and customer service capabilities of our directly-operated outlets. The measures we take include improving client managers' overall marketing capabilities, dividing outlet floor area based on different functions, optimizing footprints of directly-operated outlets, and improving our technology supporting capabilities. At the same time, we also improve the operation efficiency of our outlets by conducting quantitative analysis and assessment of each outlet's financial performance.

Agency Outlets

As of March 31, 2016, we had 31,756 agency outlets. The table below sets forth the number of our agency outlets by region as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Head office	—	—	—	—	—	—	—	—
Yangtze River Delta	3,774	11.9%	3,786	11.9%	3,798	12.0%	3,798	12.0%
Pearl River Delta	2,341	7.4	2,347	7.4	2,356	7.4	2,356	7.4
Bohai Rim	4,200	13.3	4,227	13.3	4,227	13.3	4,227	13.3
Central China	8,481	26.8	8,516	26.9	8,517	26.8	8,519	26.8
Western China	9,233	29.3	9,242	29.2	9,254	29.2	9,259	29.2
Northeastern China	3,570	11.3	3,587	11.3	3,597	11.3	3,597	11.3
Total	**31,599**	**100.0%**	**31,705**	**100.0%**	**31,749**	**100.0%**	**31,756**	**100.0%**

Our outlets located in County Areas accounted for a larger proportion of our total agency outlets than that of outlets in Urban Areas. The table below sets forth the number of our agency outlets located in County Areas and Urban Areas as of the dates indicated.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
County Areas	23,724	75.1%	23,772	75.0%	23,808	75.0%	23,812	75.0%
Urban Areas	7,875	24.9	7,933	25.0	7,941	25.0	7,944	25.0
Total	**31,599**	**100.0%**	**31,705**	**100.0%**	**31,749**	**100.0%**	**31,756**	**100.0%**

We actively promote the transition of agency outlets' operation and management, improve the comprehensive competitiveness of agency outlets, and enhance the collaborative development between agency outlets and directly-operated outlets through various measures. Leveraging our advantage in agency outlet network, we conduct marketing activities through agency outlets for retail credit business and credit card business in selected areas, so as to enhance our capabilities to acquire customers at a lower cost.

Electronic Banking

Overview

As a leading large retail bank, we are committed to fully leveraging our broad network coverage to build an Internet financial service platform featured with comprehensive online services, smart offline services and collaborative development of online-to-offline services. In recent years, we have strengthened electronic banking channels, and promoted technology and product innovation by increasing investment in technology research and development. Currently, we have built an e-banking financial services network with comprehensive services and wide coverage, including online banking, mobile banking, self-service banking, telephone banking, TV banking and "Weibank." Our electronic banking business is rapidly growing. The number of our electronic banking retail customers increased from 85.20 million as of December 31, 2013 to 158.43 million as of March 31, 2016. For the three months ended March 31, 2016, we completed 2.73 billion transactions through electronic banking channels, representing 73.8% of total transactions, 23.8 percentage points higher than that of 2013. We book revenues generated from electronic banking channels in terms of the nature of transactions conducted by customers through electronic banking channels.

We actively develop Internet finance. We cooperate with ULE.com, which is China Post Group's e-commerce platform, and EMS Express & Logistics to build an Internet finance service platform integrating flows of funds, goods and information, and to establish new cooperation models such as "Internet finance + rural e-commerce" and "Internet finance + EMS."

We launched the online loan brand "PSBC e-Loan* (郵e貸)" under which we provide products including "Convenient Merchants Loan* (商樂貸)" for small enterprise customers, "Shop Owners Loan" for operators of small-scale supermarkets and scenario-based "Instant Auto Loan* (車秒貸)" for online car purchase. We plan to launch a series of online loan products in the future, including "PSBC Student Loan* (郵學貸)" for students, "PSBC Wage-earners Loan* (郵薪貸)" for salary workers and "PSBC Prime Loan* (郵享貸)" for high-quality customers. Our customers can apply for such loans via applications on their mobile phones. We will continue optimizing our business processes and improving online service experience to develop our Internet finance business.

In 2013, we were awarded "2013 Best Mobile Banking in China" and "2013 Best Online Banking Security Award" at the China E-Finance Annual Forum. In 2014, we won the "Best Electronic Banking User Experience Award" at the China Internet Economy Annual Meeting and "Electronic Banking Top Security Award" issued by JRJ.com. In 2015, we won the "2015 China's Internet Financial Development Innovation Award" issued by Internet Financial Work Committee of China Internet Society and the "2015 Best WeChat Public Platform in Financial Industry," "2015 Best Mobile Banking Security Award in China" and "2015 Best Online Banking User Experience Award in China" issued by China Financial Certification Authority.

Online Banking

We provide online banking services which are available 24 hours a day, 7 days a week via website (www.psbc.com) for our retail and corporate customers. Our retail customers can use services such as transfers and remittances, credit cards, online payment, investment, wealth management, foreign exchange, personal loans and life-style services. Our corporate customers can use services such as account inquiry and management, payment management, cash management, bills, deposit, credit business and merchant services via online banking. The number of our retail online banking customers increased from 73.68 million as of December 31, 2013 to 135.31 million as of March 31, 2016. The total transaction volume of our online banking increased from RMB1,114.6 billion in 2013 to RMB1,780.4 billion in 2015. For the three months ended March 31, 2016, the total transaction volume of our online banking was RMB485.0 billion.

Mobile Banking

We provide mobile banking services for our retail customers, primarily including account inquiry, account management, transfers and remittances, credit card services, fund business, wealth management, precious metals services, PRC government bonds, mobile phone top-up, convenient payment, mobile payments, personal loans, life-style services, business travel services. We also offer short message services (SMS) to contracted customers, to notify them account changes, risk alerts and wealth management products. Our mobile banking also supports near field communication (NFC) for contactless identification and payment, and supports QR code payment. The number of our registered mobile banking customers increased from 34.46 million as of December 31, 2013 to 106.55 million as of March 31, 2016. The total transaction volume of our mobile banking increased from RMB69.6 billion in 2013 to RMB1,366.1 billion in 2015. For the three months ended March 31, 2016, the total transaction volume of our telephone banking was RMB517.0 billion.

Self-service Banking

Our self-service terminals mainly include ATMs, cash recycling systems, auto card issuing machines, passbook teller machines, passbook update machines and account inquiry and top-up machines, which provide account inquiry, cash deposit and withdrawal, transfers and remittances, fee payment and top-up, credit card repayment and other services. As of March 31, 2016, we had 107,443 self-service terminals consisting of 80,621 cash self-service terminals such as ATMs, deposit and withdrawal all-in-one machines, and 26,822 non-cash self-service terminals such as account inquiry and top-up machines. Approximately 66,000 of our self-service terminals are located in County Areas, and approximately 56,000 are located in Central China and Western China. The total transaction volume of our self-service banking increased from RMB3,377.5 billion in 2013 to RMB4,590.9 billion in 2015. For the three months ended March 31, 2016, the total transaction volume of our self-service banking was RMB1,371.5 billion.

Telephone Banking

We provide self-service voice services and live services available 24 hours a day, 7 days a week via national hotline "95580" for our retail and corporate customers. We provide our retail customers with account inquiry, fee payment and top-up, transfers and remittances, personal loan inquiry, investment, wealth management, bank card management and other services. We provide our corporate customers with account inquiry, bill inquiry and other services. With development of our online banking, mobile banking and TV banking, our telephone banking has gradually transformed from a transaction-focused channel to a customer service-focused channel. The number of our registered telephone banking customers increased from 74.52 million as of December 31, 2013 to 107.02 million as of March 31, 2016. In 2015, the total transaction volume of our telephone banking was RMB1.2 billion. For the three months ended March 31, 2016, the total transaction volume of our telephone banking was RMB0.2 billion.

TV Banking

We provide TV banking services for our customers by cooperating with local cable operators, including account inquiry, money transfers, TV payment, credit card services, fee payment, investment, wealth management, personal loan inquiry and other services. As of March 31, 2016, we had launched TV banking system in 18 provincial-level administrative regions. The number of our registered TV banking customers increased from 3.71 million as of December 31, 2013 to 8.54 million as of March 31, 2016.

"Weibank"

We have established a "Weibank" service system by providing banking services on Internet social platforms including WeChat, EasyChat and Weibo since 2013. We are the first nationwide commercial bank to provide financial services on both the EasyChat and Weibo platforms. Our customers who follow our WeChat official account and sign up our WeChat banking services can use basic debit card and credit card services, as well as other lifestyle services such as fee payment. The number of our WeChat followers increased from approximately 80,000 as of December 31, 2013 to 2.37 million as of March 31, 2016, 1.47 million followers among whom signed up our WeChat banking services.

INFORMATION TECHNOLOGY

Overview

Information technology capability is one of our core competitivenesses. We place importance on the development of our information system and have established a customer-oriented and accounting-processing-focused information system that consists of 16 basic platforms covering ten operational areas. Our financial computer network system has the most extensive coverage in China's banking industry by connecting 40,057 outlets and 107,443 self-service terminals.

Among the Large Commercial Banks, we pioneered adopting a core banking system based on an open platform, minicomputer clustering technology and distributed architecture, which is highly stable, highly scalable and cost efficient. With a distributed architecture which is one of the core technologies of the cloud platform, our system is more suited to achieving cloud migration as compared with our peers, which is in line with the developments of Internet finance and the information technology transformation of China's banking industry.

We will continue investing resources in information technology, and focus on: (i) implementing the new generation retail credit factory system clusters, the new generation of financial market business platforms and other systems to provide technology support for our product and service innovation; (ii) developing an Internet financial cloud platform which integrates support, marketing and interaction functions by building a channel combining online Internet finance services and offline smart banking services; (iii) providing technical support to improve management efficiency by implementing financial management system clusters and business process integration platforms; (iv) strengthening the development of comprehensive risk management system, including, risk-weighted assets system based on risk datamart, customer internal rating system, economic capital management system, and anti-fraud system, and (v) further improving our capabilities of information technology risk prevention and information security.

In 2013, 2014 and 2015, our total expenditure in the procurement and maintenance of information technology equipment, systems and related software and hardware was RMB3.3 billion, RMB3.5 billion and RMB4.1 billion, respectively.

Information Technology Governance and Professional Team

We have established the Information Technology Management Committee at the senior management level for material matters relating to our technology development, including strategic planning, standard setting, information security system development and financial budget. We also established Information Technology Department, Software R&D Center and Data Center at our head office, as well as information technology departments at tier-1 branches, which together are responsible for planning, standard setting, resource allocation, project development, system operation and maintenance, information technology risk management and information security of our information technology system. In addition, we have an information technology innovation lab under Information Technology Department, and a data analysis center under Software R&D Center at our head office.

Through lateral recruiting and internal training, we have developed a comprehensive technical talent development system, which covers recruitment, training, assessment and evaluation, providing human resources support for information technology development. As of March 31, 2016, our information technology team had 1,884 employees, among which 368 had a master's degree or above, and 1,166 had a bachelor's degree. We continue to improve our in-house R&D capacity and cooperate with well-known technology companies and consulting firms in the world to improve our capacity in innovation and governance of information technology. We retain ownership of the relevant intellectual property rights on outsourced systems and the systems developed by us.

Our outstanding information technology team and our R&D capabilities have been recognized by regulators and the industry for numerous occasions. Our "Study on and Application of Minicomputer Clustering-based Large Bank Core Banking System" project was awarded "First Class Achievement of 2015 Banking Industry Information Technology Risk Management Topic" by the CBRC. Our "Mobile Business Development and Mobile Terminal Security Solutions" project was awarded the "Outstanding Contribution to Financial Technology and Innovation" in 2015 by *Financial Computerizing*. Our "Integrated Accounting Platform" was awarded the second prize of "2014 Bank Technology Development Award" by the PBOC. Our "Massive Unstructured Content Management

System Based on Hadoop Technology" which applies big data Hadoop distribution storage technology and effectively reduces the cost of filing management was awarded the third prize of "2014 Bank Technology Development Award" by the PBOC. Our "Research and Application of Domestically Made Minicomputers and Database in Banks' Key Information System" was awarded "Second Class Achievement of 2014 Banking Industry Information Technology Risk Management Topic" by the CBRC.

Information System

Adopting open platform technology roadmap, our information system consists of more than 130 applications in six categories, including channel access, channel integration, enterprise integration, product and service, management decision-making and data management. Our information system supports all aspects of business operation and management and can effectively handle large scale transactions and data processing, as well as support future business development.

Channel access system provides our customers with financial services through outlets and electronic banking. Channel integration system provides unified information and management access management for different channels. Enterprise integration system supports data interaction and sharing across various systems. Product and service system provides application services involving products, customers, accounts and accounting in each of our business lines. Management decision-making system supports our management of risks, assets and liabilities, finance, customers, human resources, administration and information technology through data analysis. Data management system is able to carry out uniform exchange, integration, storage, processing and analysis of operational data, supporting various business analysis and decision-making.

We have leading capability in the application of big data. We have built a hybrid big data platform with "data warehouse & distributed database with Hadoop architecture," which has the largest amount of customer-related data among PRC commercial banks. Through highly integrated data processing, our big data platform lays the technical ground work for realizing customer value, optimizing risk management, and implementing precise financial management. We have established an Internet finance platform focusing on rural e-commerce. Leveraging the big data technology, we carry out research on a matrix of information, including customers' transaction behavior, solvency, household income, consumption habits, activity track and credit records, to implement cross-selling and targeted marking and conduct quantitative risk analysis for the improvement of our ability to address customer needs and enhance user experience. Furthermore, we pioneered in establishing a platform for fee- and commission-based businesses, promoting the bank-wide development of fee- and commission-based businesses.

We actively explore the application of cloud technology in business system and facilitate the electronization, internetization and mobilization of our businesses to provide our customers with safe, convenient and diversified financial services while reducing the technical cost of the transactions. We have adopted cloud computing technologies and commenced to migrate our information systems to cloud. We have already successfully migrated the electronic banking functions of our channel management system and the system of PSBC Consumer Finance to the cloud, to be followed by the swift migration of other businesses to the cloud. Since the launch of our cloud platform, transactions through our cloud platform accounted for approximately 38% of our total transactions on a daily average basis, with a daily average of approximately 26 million transactions processed in the cloud, which makes our system more flexible.

Our information system has been stably running for a long time and supports the business operation in an effective and high-quality manner. According to China UnionPay's statistics, in 2015, the average success rate of our system was 99.8% and our cross-bank transaction success rate was 99.7%, ranking first among Large Commercial Banks in China. Cross-bank transaction success rate is the percentage of the number of cross-bank transactions which are successfully processed by an issuing bank's system divided by the total number of cross-bank transactions initiated by its bank card holders. Such rate is a statistical data collected and released by China UnionPay and is an important indicator of measuring the operational quality of cross-bank transactions processed by commercial banks. On 2015 Singles Day, our system successfully handled the huge transaction volume during peak hours when the number of transactions on the Taobao e-commerce platform doubled compared to that in the previous year, and the number of transactions we processed on that day ranked fifth among the PRC commercial banks. We have established two separate data centers in Beijing, and one in Hefei, forming integrated operation and maintenance system and disaster recovery structure of "two locations, three centers." For details of our risk management of information technology, see "Risk Management — Information Technology Risk Management."

COMPETITION

Under the current macroeconomic environment and regulatory regime, China's banking industry is becoming increasingly competitive. For details, see "Industry Overview — Competitive Landscape in China's Banking Industry." We compete primarily with other Large Commercial Banks, nationwide joint-stock commercial banks and rural banking financial institutions. Along with the rapid development of China's banking industry and capital markets, we also face competition from other banking and non-banking financial institutions (including securities firms, fund management companies and insurance companies). In addition, with private capital's investment into banking industry and the rapid development of Internet finance, we will face increasing competition from privately owned banks and Internet finance service institutions. We compete with our competitors mainly on variety, prices and quality of products and services, network of outlets, brand recognition as well as information technology capabilities.

In County Areas, our competitors vary across geographical regions as a result of the different development level of local economy and financial market among regions. In addition to other Large Commercial Banks, nationwide joint-stock commercial banks, city commercial banks and foreign banks operating in China, we also compete with rural banking financial institutions in County Areas. As regulatory restrictions on establishing rural banking financial institutions have been lifted, an increasing number of emerging rural financial institutions have been established in County Areas such as village and township banks, loan companies, rural mutual cooperatives and others. In addition, various financial institutions have increased their penetration in County Area financial markets. As a result, we face increasingly intense competition in County Areas.

We believe, along with progress of interest rate liberalization, competition in China's banking industry will continue to intensify. The key competitiveness depends on capital strengths, risk management capacity, asset quality, pricing on products and services, the coverage of distribution network and customer base, brand recognition, and quality of products and services and other factors. In response to the increasingly competitive environment, we intend to continue carrying out a number of strategic initiatives to differentiate us from our competitors and enable us to compete effectively in the industry.

EMPLOYEES

As of March 31, 2016, we had 160,598 full-time employees.

The following table sets forth the total number of our employees by function as of the date indicated.

	As of March 31, 2016	
	Number	**% of total**
Management	5,994	3.7%
Personal banking	60,483	37.7
Corporate banking	11,377	7.1
Treasury business	1,327	0.8
Financial and accounting	16,809	10.5
Risk management and internal control	10,846	6.8
Others[(1)]	53,762	33.4
Total	**160,598**	**100.0%**

(1) Including administration, information technology and other supporting functions.

Our team is young and has development potentials. As of March 31, 2016, the average age of our employees was 35. The following table sets forth the total number of our employees by age as of the date indicated.

	As of March 31, 2016	
	Number	**% of Total**
Under 30 (inclusive)	58,746	36.6%
31-40	52,510	32.7
41-50	40,378	25.1
Over 51(inclusive)	8,964	5.6
Total	**160,598**	**100.0%**

The following table sets forth the total number of our employees by education level as of the date indicated.

	As of March 31, 2016	
	Number	% of Total
Master's degree or above	7,320	4.6%
Bachelor's degree	86,910	54.1
Associate degree	54,142	33.7
Others	12,226	7.6
Total	**160,598**	**100.0%**

We believe that our future growth depends on our employees' outstanding capabilities and commitment. We invest significant resources in recruiting and training our employees. In 2014, we carried out our program "recruitment of a thousand talents (千人大招聘)" nationwide to attract talents with broad banking management experience. We provide our employees with various training programs designed for different levels and stages, including, among others, on-boarding orientation, advanced level training, training for specific businesses, training for the managers of different levels. In addition, we continuously optimize position management and expand promotion path to provide our employees with a good career development platform.

We have established a comprehensive performance evaluation and incentive mechanism, and offer competitive salaries to employees. We offer social insurance and benefits to employees in compliance with PRC laws and regulations, including pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing fund.

During the Track Record Period and as of the Latest Practicable Date, we had not experienced any strikes or other material labor disputes that had interfered with our operations. We maintain good relationship among our management, labor union and employees.

In addition to employees who have entered into employment contracts with us, we had also engaged 23,322 dispatched workers through third party human resources agencies as of March 31, 2016. These dispatched workers are not our employees and generally will not take important positions. They enter into labor contracts with third party human resources agencies. We pay salaries, social insurance charges and other costs related to dispatched workers to human resources agencies according to the employment agreements with those agencies, which will then pay salaries to dispatched workers and pay social insurance charges to relevant government agencies.

PROPERTIES

Our head office is located in Beijing, China. As of March 31, 2016, we owned 3,138 properties in the PRC with an aggregate GFA of approximately 3,566,503 square meters. As of March 31, 2016, in addition to the land occupied by the above-mentioned properties, we owned the land use rights of

28 parcels of land with a total area of approximately 372,692 square meters. As of March 31, 2016, we leased 13,659 properties in the PRC with an aggregate GFA of approximately 5,816,003 square meters and owned six properties under construction with an aggregate GFA of approximately 37,944 square meters.

As of March 31, 2016, the book values of our property business and non-property business were below 1% and 15%, respectively. Therefore, pursuant to Rule 5.01A of the Listing Rules, this prospectus is exempted from compliance with the requirement to include a property valuation report under the Listing Rules. With respect to the requirements to include a property valuation report under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, similar waivers are also available under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice.

Owned Properties

Properties

As of March 31, 2016, we owned 3,138 properties in the PRC with an aggregate GFA of approximately 3,566,503 square meters, which are primarily used as premises for our businesses and offices, among which:

- we had obtained the building ownership certificates for 2,873 properties with an aggregate GFA of approximately 3,182,620 square meters (representing approximately 89.23% of the total GFA of our owned properties), among which:

  O for 2,525 properties with an aggregate GFA of approximately 2,908,274 square meters (representing approximately 81.54% of the total GFA of our owned properties), we have obtained the building ownership certificates for such properties and the state-owned land use right certificates for the land occupied by such properties. As advised by our PRC legal advisor, Haiwen & Partners, we have legitimate ownership rights of such properties and the land use rights for the land occupied by such properties, and we are entitled to occupy, use, transfer, lease and create a mortgage on or by other means dispose of such properties according to applicable laws, except that: (i) for three properties with an aggregate GFA of approximately 1,866 square meters, which are located in the lands where we have obtained the state-owned land use certificates but the terms of land use rights have expired, there are no material legal impediments for us to occupy and use such properties, however, we shall renew the land use rights according to relevant laws prior to our transferring, creating a mortgage on or by other means disposing of such properties; (ii) for 290 properties with an aggregate GFA of approximately 461,541 square meters obtained from China Post Group, we obtained the land use rights for the land occupied by such properties which were registered as authorized operative lands or allocated lands. China Post Group has obtained the consent from the Ministry of Land and Resources for the disposal of the land use rights of such properties. However, the local authorities of land and resources registered the land use rights of such properties as authorized operative lands or allocated lands for some reasons on our land use right certificates other than lands for capital contribution (or share subscription) or granted land. As advised by our PRC legal advisor, we are entitled to occupy, use, transfer, lease and create a mortgage on or by other means dispose of such properties and lands, without being subject to material legal impediments due to the fact that the land use rights have been registered as authorized operative lands or allocated lands; and (iii) for two properties with an aggregate GFA of approximately 579 square meters, we purchased the properties and obtained the land use rights for the land occupied by such properties which were allocated lands, we are entitled to occupy and use such properties, however, we shall complete payment procedures for the use of such land prior to our transferring, leasing, creating a mortgage on or by other means disposing of such properties.

O for 348 properties with an aggregate GFA of approximately 274,346 square meters (representing 7.69% of the aggregate GFA of our owned properties), we have obtained the building ownership certificates of such properties, but have not obtained the title certificates for the land occupied by such properties, among which (i) 105 properties with an aggregate GFA of approximately 101,645 square meters (representing 2.85% of the aggregate GFA of our owned properties) for which the local real estate administrative authorities, as their general practice, do not issue state-owned land use right certificates in addition to building ownership certificates, and (ii) 153 properties purchased by us with an aggregate GFA of approximately 86,053 square meters (representing 2.41% of the aggregate GFA of our owned properties) for which we have been provided with the pre-sale permits or land title certification documents from sellers. As advised by our PRC legal advisor, as we have obtained the relevant building ownership certificates for such properties, there are no material legal impediments for us to occupy and use such properties. However, we shall obtain the state-owned land use right certificates prior to our transferring, creating a mortgage on or by other means disposing of such properties, except that the local real estate administrative authorities do not issue the state-owned land use right certificates in addition to the building ownership certificates. For the properties which we purchased and the sellers have provided us with the pre-sale permits or land title certification documents, there are no material legal impediments for us to obtain the state-owned land use right certificates of such properties provided that we have fulfilled the obligations under the purchase agreements, including the payment of purchase prices, except for the situations that the local real estate administrative authorities do not issue state-owned land use right certificates in addition to building ownership certificates.

- we have not obtained the building ownership certificates of 265 properties with an aggregate GFA of approximately 383,883 square meters (representing 10.77% of the total GFA of our owned properties), among which:

  O for 16 properties with an aggregate GFA of approximately 51,657 square meters (representing 1.45% of the aggregate GFA of our owned properties) we occupied, we have not obtained the building ownership certificates, but have obtained the title certificates for the land occupied by such properties. Among such properties, four properties which we purchased and the sellers have provided us with the pre-sale permits or title certification documents, or we constructed and have made the filing for the completion and acceptance of construction had an aggregate GFA of approximately 24,442 square meters (representing 0.69% of the aggregate GFA of our own properties). As advised by our PRC legal advisor, as we have obtained the state-owned land use right certificates for the land occupied by the 16 properties mentioned above, and no third party has claimed the ownership of these properties against us as of March 31, 2016, there are no material legal impediments for us to occupy and use such properties, but we shall obtain the building ownership certificates of the properties prior to our transferring, creating a mortgage on or by other means disposing of such properties. For the properties which we purchased and the sellers have provided us with the pre-sale permits or title certification documents, or the properties which we constructed and have made the filing for the completion and acceptance of construction, there are no material legal impediments for us to obtain the building ownership certificates of such properties, provided that we have fulfilled the obligations under the purchase agreements, including the payment of purchase prices, for the properties we purchased.

  O for 189 properties with an aggregate GFA of approximately 110,380 square meters (representing 3.09% of the aggregate GFA of our owned properties) we purchased, we have obtained neither the building ownership certificates nor the title certificates for the land occupied by such properties, but the sellers have provided us with the pre-sale permits or title certification documents of such properties. As advised by our PRC legal advisor, there are no material legal impediments for us to obtain the building ownership certificates of such properties that we purchased provided that we have fulfilled the obligations under the purchase agreements, including the payment of purchase prices.

  O in addition to the above, for 60 properties with an aggregate GFA of approximately 221,845 square meters (representing 6.22% of the aggregate GFA of our owned properties) we occupied, we have obtained neither the building ownership certificates nor the state-owned land use right certificates for the land occupied by such properties. In the event that we are not able to continue to use such properties and are required to relocate due to the defective titles of such properties, we will be able to find legitimate places as alternatives in the relevant regions to continue our operations in a timely manner, and such relocation will not have material adverse effect on our financial condition and results of operations.

During the Track Record Period and as of the Latest Practicable Date, the defects 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 state-owned land use right certificates. Our Directors are of the view that such defective properties will not, individually or in the 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 relocation costs, and such relocations will not have material adverse effect on our financial condition and results of operations.

Land Use Rights

As of March 31, 2016, in addition to the land occupied by the above-mentioned properties, we owned the use rights of 28 parcels of land with an aggregate area of approximately 372,692 square meters and there were no properties under construction or built on such land, among which:

- we have obtained the state-owned land use right certificates for 22 parcels of land with an aggregate area of approximately 336,953 square meters (representing 90.41% of the aggregate area of our owned land use rights). For one parcel of land among such lands with an area of approximately 3,787 square meters (representing 1.12% of the aggregate area of our own land use right), it was determined as idle land by the authorities of land and resources because the prescribed terms for commencement of construction under the land use right grant agreements have expired for more than two years. As advised by our PRC legal advisor, except for one parcel of idle land determined by authorities of land and resources, we have the legitimate use rights of such land, and are entitled to transfer, lease, create a mortgage on or by other means dispose of such land. For the above-mentioned one parcel of idle land, there is risk that such land may be forfeited.

- we have not obtained the state-owned land use right certificates for six parcels of land with an aggregate area of approximately 35,739 square meters (representing 9.59% of the total area of our owned land use rights), among which:

    - for five parcels of land with an aggregate area of approximately 32,272 square meters (representing 8.66% of the aggregate area of our owned land use rights), we have entered into state-owned land use right grant agreements. As advised by our PRC legal advisor, upon obtaining the state-owned land use right certificates, we are entitled to transfer, lease, create a mortgage on or by other means dispose of such land use rights, and there are no material legal impediments for us to obtain the state-owned land use right certificates provided that we have fully paid the land premium in accordance with land use right grant agreements.

    - for one parcel of land with an area of approximately 3,467 square meters (representing 0.93% of the aggregate area of our owned land use rights), we have obtained the Decision Letter for Allocated Land. As advised by our PRC legal advisor, we are entitled to transfer, lease, create a mortgage on or by other means dispose of such land use right provided that we have completed the payment procedures for the use of such land and have obtained the corresponding state-owned land use right certificate.

During the Track Record Period and as of the Latest Practicable Date, the defects of the above-mentioned land use rights did not have any material adverse effect on our business operations. We will make efforts to obtain the state-owned land use right certificates. Our Directors are of the view that such defective land will not, individually or in the aggregate, have any material adverse effect on our business. If necessary, we believe that we will be able to find comparable land as alternatives which will not have material adverse effect on our financial condition and results of operations.

Leased Properties

As of March 31, 2016, we leased 13,659 properties with an aggregate GFA of approximately 5,816,003 square meters in the PRC, which are primarily used as premises for our businesses and offices, among which:

- for 7,636 properties with an aggregate GFA of approximately 3,563,744 square meters we leased (representing 61.27% of the aggregate GFA of the properties we leased), the lessors own the building ownership certificates of such properties or the written documents from the properties' owners authorizing the lessors to lease such properties. As advised by our PRC legal advisor, the lessors are entitled to lease such properties and these leasing arrangements are legal and valid.

- for 4,339 properties with an aggregate GFA of approximately 1,582,783 square meters we leased (representing 27.21% of the aggregate GFA of the properties we leased), the lessors were not able to provide the building ownership certificates of such properties, but have issued the following or similar undertakings in written: 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 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 indemnifications from the lessors based on their written undertakings.

- for 1,684 properties with an aggregate GFA of approximately 669,476 square meters we leased (representing 11.51% of the aggregate GFA of the properties we leased), the lessors were not able to provide the building ownership certificates of such properties and did not issue the following or similar undertakings in written: the lessors are entitled to lease such properties, and the lessors shall indemnify the lesses if the lesses suffer losses from the defective titles of such properties. As advised by our PRC legal advisor, the lessors are not entitled to lease the properties if they do not have the ownership rights of such properties. We believe that, in the event that we are not able to continue to use such properties and are required to relocate due to the defective titles of such properties, we will be able to find legitimate places as alternatives in the relevant regions to continue our operations in a timely manner, and such relocation will not have material adverse effect on our financial condition and results of operations.

Among the above-mentioned properties we leased, 454 properties with an aggregate GFA of approximately 213,916 square meters had completed the lease registration. As advised by our PRC legal advisor, failure to complete the lease registration will not affect the legal effectiveness of the lease agreements according to the relevant PRC laws, however, the real estate 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.

Given that the above-mentioned defective leased properties are located in various regions and the possibility that all or majority of such properties are being disposed of simultaneously is remote, our Directors are of the view that such defective leased properties will not, individually or in the aggregate, have material adverse effect on our business operations. In the event that any third-party rights holder requires us to relocate, we believe that we will be able to lease comparable properties to continue our operations at relatively low relocation costs, and such relocations will not have material adverse effect on our financial condition and results of operations.

Properties under Construction

As of March 31, 2016, we owned six properties under construction (i.e., we have commenced the construction of those properties but have not completed the procedures for completion and acceptance) with an aggregate GFA of approximately 37,944 square meters, and had obtained state-owned land use right certificates for the parcels of land occupied by such properties under construction.

As advised by our PRC legal advisor, we have obtained relevant approvals or permits required for the land occupied by, and the construction of, the above-mentioned properties under construction in accordance with the construction progress. 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.

INTELLECTUAL PROPERTY

We operate under the name of "Postal Savings Bank of China." As of March 31, 2016, we owned 281 registered trademarks, two patents and 14 registered computer software copyrights in the PRC. As of March 31, 2016, we owned 13 Internet domain names, general websites and wireless URL, including our official website www.psbc.com. This website is frequently used by our customers to obtain our information and services. We have also registered or applied to register 51 trademarks in Hong Kong, including "中國郵政儲蓄銀行," its English name and similar names.

We have entered into Trademark Licensing Agreement with China Post Group, pursuant to which China Post Group grants us the rights to use certain trademarks which are registered or pending application in the PRC and/or Hong Kong by China Post Group, including the trademarks and . For details of Trademark Licensing Agreement, see "Connected Transactions — Exempt Continuing Connected Transactions — Trademark Licensing."

The details of our material intellectual properties are set out in "Appendix VII — Statutory and General Information — Intellectual Property Rights" of this prospectus.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any material claims or litigations initiated against or by us for intellectual property right infringement.

LEGAL AND REGULATORY MATTERS

Licensing Requirements

As of the Latest Practicable Date, we had obtained the material qualifications required for our current business operations.

Legal Proceedings

We are involved in certain legal proceedings in the ordinary course of our business. Most of the legal proceedings involve enforcement claims initiated by us to recover payments of our NPLs. The legal proceedings against us primarily include actions relating to customer disputes and claims brought by our counterparties on contracts related to our banking operations. As of June 30, 2016, we were the plaintiff or arbitration applicant in six pending and material litigation or arbitration cases each with a claim amount of over RMB30 million, and the aggregate claim amount was approximately RMB285 million. As of June 30, 2016, we were the defendant or arbitration respondent in six pending and material litigation or arbitration cases each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB1,491 million.

Collateral Dispute of Beijing Xicheng District Sub-branch

In November 2014, in respect of a loan dispute with the subject amount of approximately RMB30.18 million, our Beijing Xicheng District Sub-branch applied to the court for the enforcement of collateral according to a civil mediation. In March 2015, a company, which is not a party to the foregoing loan dispute, brought a lawsuit (for revoking judgment by a third party) against our Beijing Xicheng District Sub-branch for collateral dispute. Its claims to the court included revoking the civil mediation, affirming our Beijing Xicheng District Sub-branch not the pledgee of the collateral and affirming its pledge right on the collateral. In December 2015, the court of first instance rendered a judgment in favor of our Beijing Xicheng District Sub-branch, and the plaintiff appealed. In April 2016, the court of second instance rendered the final judgment in favor of our Beijing Xicheng District Sub-branch. In June 2016, the plaintiff filed an application of retrial. As of the Latest Practicable Date, the retrial court did not render judgment on the case.

Bills Dispute of Jiayuguan City Branch

In 2014, a company brought a lawsuit against our Jiayuguan City Branch for bills dispute, applying to the court for affirming that our Jiayuguan City Branch did not have rights on four bank acceptance bills in an aggregate nominal amount of approximately RMB20.0 million. In January 2015, the court of first instance rendered a judgment requiring our Jiayuguan City Branch to compensate the plaintiff RMB20.0 million, and our Jiayuguan City Branch appealed. In September 2015, the court of second instance ruled to revoke the judgment of the first instance and returned the case to the court of first instance for retrial. As of the Latest Practicable Date, the retrial court did not render judgment for this case.

Bank Card Dispute of Qingyang City Branch

In January 2015, a company brought a lawsuit against our Qingyang City Branch for bank card dispute, applying to the court for affirming that it was the beneficial owner of the funds in a bank card issued by our Qingyang City Branch. The plaintiff also requested our Qingyang City Branch to pay the funds in that bank card and interests thereon as well as losses caused by the delayed payment in an aggregate amount of approximately RMB15.0 million. In July 2015, the court of first instance rendered a judgment requiring our Qingyang City Branch to compensate the plaintiff approximately RMB1.76 million. Both the plaintiff and our Qingyang City Branch appealed against such judgment. In November 2015, the court of second instance ruled to revoke the judgment of the first instance and returned the case to the court of first instance for retrial. In May 2016, the retrial court rendered a judgment requiring our Qingyang City Branch to compensate the plaintiff approximately RMB6.15 million. Our Qingyang City Branch appealed against such judgment, applying to the court for rejecting all claims of the plaintiff. As of the Latest Practicable Date, the court did not render judgment for this case.

Contract Dispute of Dalian Branch

In February 2016, a rural credit cooperative brought a lawsuit against our Dalian Branch for contract dispute relating to the rediscounting of commercial acceptance bills. Such litigation involved the bill rediscounting business of our Dalian Branch. On July 27, 2015, by way of rediscounting bills, the plaintiff acquired the rights on six commercial acceptance bills in an aggregate nominal amount of RMB300 million and with the expiration date on December 28, 2015. The plaintiff and our Dalian Branch entered into agreements, pursuant to which our Dalian Branch would acquire the above-mentioned six commercial acceptance bills by rediscounting such bills on December 21, 2015 with an amount of approximately RMB299.36 million. In February 2016, the plaintiff brought a lawsuit against our Dalian Branch for its failure to perform the rediscounting agreement and pay the rediscounting amount, claiming for the payment of rediscounting amount and the accrued interests thereto as well as the liquidated damages in an aggregate amount of approximately RMB309.84 million. As of the Latest Practicable Date, the court did not render judgment for this case.

Bills Dispute of Zhejiang Province Branch

In May 2016, a PRC commercial bank (the "Plaintiff") brought lawsuits against three banks for bills recourse dispute, including our Zhejiang Province Branch (as the first defendant) and two nationwide joint-stock commercial banks (the "Second Defendant" and the "Third Defendant"). Such litigation relates to an interbank bill rediscounting business conducted by our Zhejiang Province Branch. In August 2015, the discounting bank of the bills (the "Discounting Bank") completed the discounting transaction of 20 commercial acceptance bills (the "Bills"), and transferred the Bills to the Third Defendant by endorsement. The Third Defendant transferred the Bills to the Second Defendant by endorsement and the Second Defendant transferred the same to our Zhejiang Province Branch by endorsement, and then the Plaintiff obtained the Bills through the endorsement by our Zhejiang Province Branch. When the Bills became due in February 2016, as the Discounting Bank refused to make payment to the Plaintiff, the Plaintiff, being the holder of the Bills, brought lawsuits against three banks that endorsed the Bills, claiming the principals of and interests on the Bills and attorney's fee in an aggregate amount of approximately RMB 1,101 million from the three defendants on a joint liability basis. As of the Latest Practicable Date, the court did not hold any hearings for this case. As advised by the legal advisor engaged by us in the above-mentioned litigation, we are of the view that, based on the relevant evidence currently available, even if the court of this case supports the Plaintiff's claim, ruling our Zhejiang Province Branch to undertake the payment obligation under the Bills, the possibility that our Zhejiang Province Branch will suffer actual monetary losses is remote because the rediscounting transaction between our Zhejiang Province Branch and the previous endorser (the Second Defendant) are in compliance with the relevant laws and our Zhejiang Province Branch has the legal right to claim the full payment by the previous endorser, which is also a financial institution. On the above basis, our Directors do not expect such litigation will have material adverse effect on our business, financial condition or results of operations.

Properties Purchase Contract Dispute of Nantong Branch

In January 2012, our Nantong Branch entered into a contract with a real estate development company to purchase a building developed by the real estate development company for commercial and office use for a total purchase price of RMB182.0 million. After the real estate development company obtained the certificate for the completion and acceptance of construction for the building in December 2012, our Nantong Branch paid RMB163.8 million out of the total purchase price to the real estate development company. In February 2013, the real estate development company delivered the properties to our Nantong Branch. Our Nantong Branch found quality deficiencies of the properties and therefore refused to pay the remaining purchase price. In January 2016, the real estate development company sued our Nantong Branch, claiming for the payment of the remaining purchase price, the liquidated damages for overdue payment and accrued interest in an aggregate amount of approximately RMB14.96 million. In January 2016, our Nantong Branch also sued the real estate development company for material quality deficiencies of the properties, claiming for the payment of approximately RMB79.11 million due to breach of contract (such amount is included in the above-mentioned aggregate claim amount of the six material legal proceedings in which we were the plaintiff or arbitration applicant). As of the Latest Practicable Date, the court combined the two cases into one legal proceeding and had not rendered judgment.

We do not expect any of our pending legal or arbitration proceedings to have, individually or in the aggregate, material adverse effect on our business, financial condition or results of operations, even if they are determined against us. As of the Latest Practicable Date, we did not make provision for the litigation against Beijing Xicheng District Sub-branch considering the judgments rendered by the court of first instance and the court of second instance were in favor of our Beijing Xicheng District Sub-branch; we did not make provision for the litigation against Jiayuguan City Branch and the litigation against Qingyang City Branch primarily because we expect that the final judgments for these two cases would be in favor of us; we did not make provision for the litigation against Dalian Branch and the litigation against Zhejiang Province Branch primarily because the two cases are at the early stage of proceedings and we need more information to determine whether to make provision and the amount of provision to be made based on the further development of the litigation. For the properties purchase contract dispute in which our Nantong Branch was the defendant, the unpaid amount under the contract (as account payable) was recorded as our liabilities as of the Latest Practicable Date and we did not make provision for this lawsuit. As of June 30, 2016, other than the properties purchase contract dispute of our Nantong Branch, the five pending material lawsuits in which we were plaintiff were brought to enforce our creditor rights, and we made impairment allowance of approximately RMB183.43 million for the assets involved in such five lawsuits. For the risk of our involvement in legal proceedings, see "Risk Factors — Risks Relating to Our Business — We may be involved in legal and other disputes from time to time arising in the ordinary course of our business."

As of the Latest Practicable Date, none of our Directors, Supervisors or senior management was involved in any material litigations, arbitrations or administrative proceedings.

Regulatory Inspections and Procedures

We are subject to inspections by the relevant PRC regulatory authorities, primarily including the PBOC, CBRC, CSRC, CIRC, NDRC, MOF, SAT, NAO, SAIC and SAFE and their respective local offices. These inspections have previously resulted in findings of non-compliance incidents and the incurrence of certain penalties. Although such incidents and penalties did not have any material adverse effect on our business, financial condition and results of operations, we have implemented remedial and precautionary measures to prevent the reoccurrence of such incidents.

Administrative Penalties

During the Track Record Period, we were subject to a total of 119 administrative penalties imposed by PRC regulatory authorities (excluding tax authorities) in an aggregate amount of approximately RMB44.41 million for fines of or over RMB100,000 each. The specifics of such instances are as follows:

- 58 administrative penalties totaling approximately RMB17.43 million were imposed by the CBRC and its local offices primarily for non-compliance with rules for prudent operations, such as suspected personal fund-raising fraud, misappropriation of funds and loan extensions in a non-compliant manner;

- 36 administrative penalties totaling approximately RMB8.70 million were imposed by the PBOC and its local offices primarily for non-compliance with anti-money laundering regulations, such as failure to submit reports of large and suspicious transactions as required and failure to perform the identification obligations as required;

- Six administrative penalties totaling approximately RMB1.49 million were imposed by the SAFE and its local offices primarily for conducting foreign exchange settlement business in a non-compliant manner;

- Five administrative penalties totaling approximately RMB1.00 million were imposed by the local offices of the SAIC primarily for charging registration fees of properties mortgage in a non-compliant manner; and

- 14 administrative penalties totaling approximately RMB15.80 million were imposed by other government authorities (including the local offices of the NDRC and price bureaus) primarily for charging registration fees of properties mortgage in a non-compliant manner.

As of March 31, 2016, we had paid fines totaling approximately RMB44.26 million in respect of the above-mentioned administrative penalties (excluding taxation penalties) and would pay off the outstanding fines in accordance with the requirements of relevant regulatory authorities.

In addition, during the Track Record Period, we were subject to ten penalties imposed by PRC tax authorities for an aggregate amount of approximately RMB2.20 million for fines of or over RMB100,000 each primarily for, among others, shortage of withholding individual income tax for our employees and failure to pay stamp duty in full.

As of March 31, 2016, we had paid fines totaling approximately RMB1.79 million in respect of the above-mentioned penalties imposed by tax authorities and would pay off the outstanding fines in accordance with the requirements of relevant tax authorities.

We believe that the above-mentioned administrative penalties will not have, individually or in the aggregate, material adverse effect on our business, financial condition or results of operations. We have taken, and will continue to take, the following key steps and measures to rectify such issues identified by PRC regulatory authorities:

- In respect of suspected personal fund-raising fraud and misuse of funds, we have conducted investigations on the risks of the incidents, strengthened the management on the managers of sub-branches, implemented rotation of key positions and mandatory leaves in a strict manner, managed seals and other bank documents strictly and strengthened the education and training of employees;

- In respect of loan extensions in a non-compliant manner, we have taken measures to identify and rectify deficiencies in the system and procedures, management operations and follow-up management, embedded risk control in system construction and further improved the compliance awareness of our employees;

- In respect of the failure to submit reports of large and suspicious transactions as required, we have improved our system to enhance the screening of data in batches and the manual analysis and identification in order to improve the quality of screening and reporting suspicious transactions;

- In respect of the failure to perform identification obligations as required, we have taken management and technical measures to further clarify the responsibilities and procedures of customer identification, and to fully perform due diligence duties;

- In respect of the failure to conduct foreign exchange settlement business as required, we have improved data quality, enhanced internal control measures, strengthened trainings on foreign exchange businesses and policies and established effective notification and feedback mechanism with respect to foreign exchange management policies;

- In respect of the non-compliant changes of properties mortgage registration fees, we have rectified the non-compliance incidents, strengthened monitoring and inspections, strengthened trainings for our employees and improved our responsibility system; and

- In respect of tax non-compliance, we have improved our tax management system, strengthened trainings with respect to tax laws and regulations for our employees, carried out periodic self-inspection with respect to tax law compliance and promptly rectified tax issues identified through such self-inspection.

Through the above measures, we believe that we have taken appropriate actions to rectify the identified deficiencies.

Findings of Regulatory Inspections

PRC regulatory authorities have identified certain deficiencies in our business operations, risk management and internal control in some of their routine or *ad hoc* inspections on us. We have promptly taken rectification measures based on the findings and recommendations from relevant regulatory authorities and improved our risk management and internal control rules and procedures. As of the Latest Practicable Date, PRC regulatory authorities did not have further comments on our rectification measures set forth in our rectification reports and our implementation of such measures, nor required us to take any further rectification actions. Based on such inspection findings, we believe that we have no significant deficiencies with respect to our business operations, risk management and internal control, and that the above-mentioned inspection findings have no material adverse effect on our business, financial condition or results of operations.

The key inspection findings are summarized as follows.

CBRC

The CBRC and its local offices conduct routine and *ad hoc* inspections on us, including on-site inspections on our head office and branches and sub-branches, and issues inspection reports, providing the inspection results and relevant recommendations. During the Track Record Period, the key issues identified and recommendations provided by the CBRC and its local offices, as well as our major rectification measures are summarized as follows.

Key Issues and Recommendations	Our Major Rectification Measures
Credit Business	
• Strengthen dynamic management on NPLs, control NPLs and further increase write-offs and allowance on NPLs.	• We have strengthened the monitoring on overdue loans, traced, analyzed and inspected NPLs, innovated disposal method of NPLs, further increased the transferal and write-offs on NPLs, formulated policies and standards for collectively assessed allowance for key risk areas and enhanced risk compensation capability.

Key Issues and Recommendations	Our Major Rectification Measures
• Strengthen the entire process management of credit business, prevent the risks in key areas such as over-capacity industries and real estate industries, and strengthen the management on NPLs involving financing vehicles, loans with identity fraud and micro loans.	• We have strengthened the monitoring on credit risk, improved risk identification capability, strengthened the risk warnings and analysis on key areas, strictly reviewed the qualifications of customers to effectively reduce default risk, strengthened the background check of underlining transactions and the post-loan supervision of the use of proceeds, enhanced control on high-risk products, developed low-risk products, and enhanced the rectifications on loans with identity fraud. For our rectification measures on loans with identity fraud, see "— Special Incidents — Loan Fraud Incident."
Interbank Business	
• Strengthen the management of interbank business, review account opening documents for interbank business strictly, collect the up-to-date information of counterparties and standardize account reconciliation management.	• We have strengthened the standardized management of business documents, enhanced business training for front desk personnel, strictly implemented business operational procedures, strictly implemented whole-process management on interbank business from review to post-investment management.
Off-balance Sheet Business	
• Strengthen risk management of off-balance sheet business, implement unified credit extension for off-balance sheet business, review business information strictly, and standardize the registration and management of bank acceptance bills.	• We have fully understood the production and operational conditions of customers, reinforced the background check of underlining transactions, further enhanced the management of credit extension for off-balance sheet business and strictly implemented deposit requirements for bank acceptance bills.

Key Issues and Recommendations	Our Major Rectification Measures
Bills Business	
• Strengthen the management of bills business, enhance the due diligence on customers and background check of underlining transactions, and standardize the operational processes such as the procedures for discounted bills, the execution of bills contracts, the document management for bills business and the security management for bills storage.	• We have implemented measures such as bills re-examination to prevent risks relating to physical formality of bills, enhanced the due diligence on customers and background check of underlining transactions, enhanced post-discounting inspection on key customers, detected and rectified issues arising from business operations in a timely manner through frequent and strengthened inspections.
Sales of Financial Products	
• Strengthen the management on sales of insurance, funds and wealth management products, standardize marketing activities, and respond to customer complaints appropriately.	• We have standardized sales procedures and marketing activities, prohibited induced sales, improved product classification and risk assessment on customers, enhanced disclosure of products and risks, enhanced supervision and inspection.
Liquidity Risk Management	
• Strengthen liquidity risk management, implement proactive management considering the changes in macroeconomic policies and business development, and strengthen daily risk monitoring.	• We have continuously strengthened monitoring on changes of various liquidity risk indictors, strengthened liquidity risk alert and conducted stress tests.
• Improve information technology to support analysis and measurement for liquidity management.	• We have further improved treasury management system's support to dynamic identification, measure, monitoring and control of liquidity risk.
Reputational Risk Management	
• Integrate reputational risk management into our comprehensive risk management system.	• We have revised and optimized petition management system, improved procedures for petition, strengthened the publicity management, improved crisis response capabilities and performed inspection and rectification relating to reputational risk.

Key Issues and Recommendations	Our Major Rectification Measures
• Strengthen the management on complaints, improve and optimize the mechanism for responding to complaints.	• We have enhanced the assessment and reporting on complaints relating to our services, established self-inspection system for complaints, strengthened trainings to improve our employees' awareness of service quality and their capabilities to handle complaints.
Information Technology Risk Management	
• Accelerate the development of information systems, increase investment in and human resources for information technology, enhance in-house research and development capabilities to reduce outsourcing risks and optimize information system crisis management plans.	• We have increased investment in information technology, recruited more information technology professionals, strengthened the development of application system platform and improved the rules for data security management.
Capital Management	
• Establish long-term mechanism for capital replenishment.	• We have diversified channels for replenishing capital, and established long term mechanism for capital replenishment with a mix of internal and external resources as well as equity and debt instruments.
• Improve capital management capabilities.	• We have launched the risk data mart project to enhance data governance, accelerated the development of internal rating system to improve the accuracy of capital measurement, and conducted a comprehensive inspection on measuring risk-weighted assets.
Corporate Governance	
• Further clarify the responsibilities of shareholders' general meeting, Board of Directors and special committees to improve their fulfillment of responsibilities.	• We have improved authorization mechanism of corporate governance, clarified delegation to Board of Directors by shareholders' general meeting and delegation to each special committee by Board of Directors, and improved management rules and procedures.
• Improve performance assessment measures.	• We have refined assessment indicators and improved performance assessment measures.

Key Issues and Recommendations	Our Major Rectification Measures
Internal Control and Compliance Management	
• Strengthen the internal control system, improve capabilities to prevent and control non-compliance incidents, conduct inspections on risks of non-compliance incidents, establish and improve the rectification mechanism.	• We have clarified duties and responsibilities mechanism for prevention and control of non-compliance incidents, enhanced the enforcement of accountability, improved internal audit, enhanced the compliance management system and conducted thorough inspection on specific risks of non-compliance incidents.
• Enhance employee training to improve our employees' compliance awareness and their capabilities to prevent and control risks, improve the implementation of rules and policies, prevent the operational risks and enhance non-compliance incident investigation and accountability.	• We have strengthened employee training, strictly implemented rotation of positions and mandatory leaves, increased inspection efforts on personnel and strengthened the prevention of moral hazard.
• Improve professional capabilities of management and qualifications of employees, and recruit talents.	• We have further improved the management system of managerial personnel and measurement of employees' performance assessment, enhanced business training on employees, recruited experienced managers and specialists.
Management of Branches and Outlets	
• Strengthen the management on branches and sub-branches, and enhance the qualification management on the managers of operational sub-branches.	• We have revised and improved management rules of branches and sub-branches, strengthened guidance on branches and provided management training, formulated qualification management measures for managers of tier-2 sub-branches and performed assessment, test and review of the candidate before appointment.
• Improve operation and management capabilities, credit management capabilities, service capabilities and profitability capabilities of directly-operated outlets.	• We have clarified the positioning of outlets, optimized the layout of outlets, managed underperformed outlets through measures such as business development and outlet restructuring, established routine training mechanism to improve business capabilities of employees at outlets.

Key Issues and Recommendations	Our Major Rectification Measures
• Clarify responsibilities between China Post Group and us, strengthen the qualification certification and management on responsible managers and employees of agency outlets, enhance the management and monitoring on agency outlets, improve non-compliance incident prevention capabilities of agency outlets.	• We have further clarified management responsibilities of agency outlets by revising relevant management rules, strengthened qualification certification on responsible managers of agency outlets, enhanced business guidance and training for agency outlets, increased the frequency of inspections on agency outlets, and optimized the mechanism for assessment, management, inspection and punishment.

PBOC

The PBOC and its local offices conduct routine and *ad hoc* inspections on us, including on-site inspections of our branches and sub-branches, and issues inspection reports, providing the inspection results and relevant recommendations. During the Track Record Period, the key issues identified and recommendations provided by the PBOC and its local offices, as well as our major rectification measures are summarized as follows.

Key Issues and Recommendations	Our Major Rectification Measures
• Enhance and refine internal control system relating to anti-money laundering and improve business rules and procedures in consideration of the practice for any specific business.	• We have improved internal control and business rules and procedures relating to anti-money laundering.
• Strengthen management of anti-money laundering, strictly perform anti-money laundering responsibilities of authenticating customer identities and completely maintain customer identification information and transaction records, strictly and accurately implement large and suspicious transaction reporting mechanism, improve process of classifying risk level, strengthen anti-money laundering system and optimize business systems.	• We have organized trainings and lectures and provided on-site guidance to improve anti-money laundering capabilities, strengthened the review and assessment of account opening documentation, strengthened the monitoring, guidance and assessment of suspicious transaction reporting, optimized procedures for classifying risk levels, and improved anti-money laundering monitoring system and relevant business systems.

Key Issues and Recommendations	Our Major Rectification Measures
• Improve capabilities of processing payments and settlements.	• We have optimized and upgraded interbank clearing system for online payment, settlement processing system and check image exchange system, and enhanced training on business procedures.

SAFE

The SAFE and its local offices conduct inspections on our foreign exchange business and issues inspection opinions, providing the inspection results and relevant recommendations. During the Track Record Period, the key issues identified and recommendations provided by the SAFE and its local offices, as well as our major rectification measures are summarized as follows.

Key Issues and Recommendations	Our Major Rectification Measures
• Strengthen internal control mechanism and improve internal control rules and procedures.	• We have strengthened the studies and understanding of policies, and improved the internal control rules and procedures of foreign exchange business.
• Improve foreign exchange business operations, improve the opening and change of foreign debt accounts, strengthen the compliance of the management of positions for foreign exchange settlement.	• We have improved the foreign debt management rules and procedures and strengthened the management of positions for foreign exchange settlement.
• Improve the quality of foreign exchange data, enhance the accuracy and timeliness of data reporting.	• We have accelerated the improvement of functions of our system, improved efficiency and quality of data collection, strengthened management on procedures and assessment, and increased the quality of data reporting.

COMPLIANCE WITH CORE INDICATORS

We are required to comply with multiple ratios as required by the Core Indicators (Provisional) (核心指標(試行)) issued by the CBRC. For details concerning our compliance with the Core Indicators (Provisional) during the Track Record Period, see "Supervision and Regulation — Other Risk Management Ratios" and "Risk Factors — Risks Relating to Our Business — If we fail to fully comply with applicable regulatory requirements, our reputation could be damaged, and our business, financial condition and results of operations could be materially and adversely affected." During the Track Record Period, we were not subject to any penalties as a result of non-compliance with any core indicators.

ANTI-MONEY LAUNDERING

During the Track Record Period and as of the Latest Practicable Date, no material money laundering incidents had been identified by us or reported to our senior management. For details of our anti-money laundering measures, see "Risk Management — Legal and Compliance Risk Management — Anti-money Laundering."

SPECIAL INCIDENTS

We have, from time to time, detected incidents of fraud and other misconduct committed by our employees, customers and other third parties. Our Directors confirm that the significant incidents from January 1, 2013 to the Latest Practicable Date, based on the amount involved in the same category of incidents, the seniority of the employees involved and the nature of the incidents, are discussed below. In each of these incidents, we have taken appropriate legal measures against the perpetrators and adopted rectification measures to address any operational or internal control-related deficiencies exposed by their misconduct. We believe that the financial losses and other adverse consequences of these incidents will not have, individually or in the aggregate, material adverse effect on our business, financial condition or results of operations. We will continue to focus on improving and strengthening our internal control and risk management functions with the goal of successfully preventing similar incidents from recurring in the future. For information regarding our risk management and internal control initiatives, see "Risk Management."

Loan Fraud Incident

From 2008 to 2015, some of our branches and sub-branches extended loans to borrowers whose identities were misrepresented or stolen (collectively, "loans with identity fraud"). Loans to borrowers whose identities were misrepresented refer to those loans where the nominal borrower is aware that his or her identity has been used for applying for the loans and both our credit staff and the nominal borrower are aware that the loan proceeds are being used by the actual borrower. Loans to borrowers whose identities were stolen refer to those loans where our credit staff independently or in conspiracy with the actual borrower stole the nominal borrower's identity and information to apply for the loans. We are of the view that such loan fraud incident happened primarily because of, in the early stage of our business and operations, (i) our failure to achieve effective checks and balances among the front, middle and back offices and identify potential risks in business operational process due to lack of experience and risk management awareness and measures, and (ii) the failure to identify deficiencies in customer investigation or aggressive pursuit of performance results and business scale by managerial and credit staff at our branches and sub-branches when our incentive and discipline policies were underdeveloped.

In April 2015, the CBRC issued a regulatory opinion letter to us in respect of the loans with identity fraud incidents (the "Regulatory Opinion Letter"), primarily requiring us to thoroughly investigate such loans, properly resolve the underlying risks of such loans, strengthen credit management and ensure effective accountability.

In addition, during the Track Record Period, judicial authorities imposed coercive measures or penalties on a few of our former employees for their involvement in loans with identity fraud. For instance, from October 2008 to February 2015, Yang Bing, former president of our Yiling sub-branch located in Yichang, Hubei Province, was a suspect to commit the crime of illegal extension of loans for extending loans with identity fraud with an approximate aggregate amount of RMB130 million. As of the Latest Practicable Date, Yang Bing had been arrested. From January 2011 to January 2013, Kong Ming, the former credit staff of our Yangquan branch located in Shanxi Province, was a suspect to commit the crime of illegal extension of loans for extending micro loans to borrowers whose identities were stolen with an aggregate amount of RMB13 million. On October 3, 2015, the High People's Court of Shanxi Province made a final judgment on this case. Kong Ming was sentenced to imprisonment of eight years and subject to a monetary penalty of RMB0.1 million for illegal extension of loans.

In 2013, we started to conduct continuous investigation, remedial and rectification activities with respect to loans with identity fraud, the details of which are set forth as follows:

- *Conducting comprehensive and in-depth internal investigation and rectification.* We carried out bank-wide specific investigation on loans with identity fraud in May 2013 and May 2015, respectively. We completed the specific investigation on June 15, 2015 and completed the rectification on April 30, 2016. As of April 30, 2016, the loans with identity fraud were RMB764 million, representing 0.03% of our total loans as of March 31, 2016. The loans to borrowers whose identities were misrepresented and loans to borrowers whose identities were stolen were RMB503 million and RMB261 million, respectively.

- *Enforcing accountability of relevant persons.* As of April 30, 2016, we completed identifying the liabilities of management personnel and credit staff of relevant branches and sub-branches involving in loans with identity fraud, and have imposed penalties on 3,707 persons. Based on the nature of the incidents and the amount of losses, we imposed economic penalties or disciplinary actions on relevant persons or dismissed them, and handed over the persons involving suspected crimes to judicial authorities. In 2015, we issued Ten Bans on Employee Behaviors of the Postal Savings Bank of China* (中國郵政儲蓄銀行員工行為十條禁令), specifically providing that any credit staff extending loans with identity fraud shall be dismissed.

- *Promptly responding to disputes over credit records.* The credit records of nominal borrowers would be negatively affected when loans with identity fraud are overdue or at default. We have actively dealt with the applications relating to disputes over credit records, and have deleted false credit records of the nominal borrowers.

- *Optimizing the incentive and discipline mechanism.* We adopted a series of rules and measures to improve the incentive and discipline mechanism, in order to prevent the management personnel and credit staff of our branches from extending loans in a non-compliant manner to aggressively pursue business expansion and returns.

- *Enhancing compliance education on credit staff.* We have been continuously providing orientation trainings and organize compliance education activities to enhance our credit staff's compliance awareness, and carry out on-going supervision and assessment on staff for credit business.

- *Improving capabilities for credit risk management.* We have implemented a series of measures to improve the credit risk management, including:

  O We have strengthened the approval authority delegation for micro loans and achieved centralized examination and approval for loans at branches to ensure the independence of review and approval personnel and enhance the separation of loan review and loan extension.

  O We require our branches to strictly enforce the separation of loan review and loan extension to ensure that the loan review and loan extension are performed by designated persons separately; meanwhile, we have accelerated the establishment of loan extension center and required that only tier-1 branches and tier-2 branches have the authority to extend personal loans.

  O We manage the authorization for micro loans by regions and adopt differential management on such loans based on their respective industries or regions.

As of the Latest Practicable Date, the CBRC did not have further comments on our actions pursuant to the Regulatory Opinion Letter, and did not impose any further administrative penalties on us or require us to take additional remedial measures. In addition, based on our on-going inspection and monitoring, we did not identify any newly extended loans with identity fraud after our investigation completed on June 15, 2015.

Given that the loans with identity fraud represent a small proportion of our total loans and we have adopted a series of remedial and rectification measures, we believe that the incidents relating to loans with identity fraud, including the Regulatory Opinion Letter, remedial and rectification measures and legal proceedings, do not and will not have material adverse effect on our business, financial condition and results of operations.

Chen Shuguo Incident

Chen Shuguo, the chief officer of Shiliting Post Office of Shahe Post Bureau located in Xingtai City, Hebei Province (our agency outlet), defrauded and embezzled the customer funds for gambling activities by entering into agreements with customers using illegally engraved stamps during his term of office from December 2010 to December 2014. The amount involved in such case was RMB124 million. The case was filed with competent court on February 15, 2015. As of the Latest Practicable Date, Chen Shuguo had been arrested.

We believe that this case has not had, and will not have, material adverse effect on our business, financial condition and results of operations. After the occurrence of this case, we and China Post Group have identified the liabilities of relevant responsible persons and imposed penalties accordingly. We have also implemented measures to control relevant risks and prevent the recurrence of similar incidents, including strengthening education on professional ethics and compliance, enhancing business training and the management of operational procedures, and strengthening the rotation of positions, mandatory leaves and inspections on employees' daily conduct.

Bu Congfang, Li Guixiang and Zhang Jiaxia Incident

On April 29, 2011, Bu Congfang, Li Guixiang and Zhang Jiaxia, the former cashiers of our Zhangqiu sub-branch of Shandong branch, deposited customers' funds, which should have been deposited into other banks' corporate accounts or the vaults with security companies, into another bank under the name of irrelevant third parties to assist the employees of the receiving bank to achieve the target amount of deposit. The amount involved in this case was RMB94.24 million. However, there are no financial losses caused by this case because all the involved funds were returned to us. This case was filed with competent court on August 23, 2012. The People's Court of Zhangqiu City rendered its first instance judgment on the case on January 10, 2014. Bu Congfang, Li Guixiang and Zhang Jiaxia were sentenced to imprisonment of four years, three years and six months and three years and six months, respectively, for embezzling public funds. The three defendants did not appeal against such judgment.

We believe that this case has not had, and will not have, material adverse effect on our business, financial condition and results of operations. After the occurrence of this case, we have identified the liabilities of relevant responsible persons and imposed penalties accordingly. We have also implemented measures to control the risks of deposit and prevent the recurrence of similar incidents, including strengthening human resource management, strictly implementing inspections on treasury and accounts, improving business procedures and enhancing trainings on compliance.

Tao Liming Incident

On December 2, 2015, the Intermediate People's Court of Hebi City in Henan Province rendered its first instance judgment against Tao Liming, our former president, for accepting bribes and embezzling public funds. Tao Liming was sentenced to life imprisonment and deprival of political rights for life. Tao Liming has appealed against the judgment of the first instance. The findings in the first instance proceedings include that Tao Liming took advantage of his position during his term of office from April 2002 to May 2012, providing benefits for others with respect to bank book printing business, personnel arrangement and loan extension, and illegally accepted bribes. From 2000 to 2004, Tao Liming, in conspiracy with others, issued certificated treasury bonds in excess of regulatory quota and invested the funds raised from the over-issued certificated treasury bonds for their own benefits. Tao Liming died in June 2016 when the competent people's court did not render its second instance judgment on the case.

None of our other Directors or senior management was involved in the above-mentioned case. Furthermore, there was no NPLs generated from the loans extended in this case, and we have recovered all the loans involved in this case. Our Directors are of the view that this case does not and will not have material adverse effect on our business, financial condition and results of operations.

After occurrence of this case, we have identified the liabilities of relevant responsible persons, implemented measures to improve the corporate governance structure and optimized the internal control mechanism, and further strengthened the management and operational system for credit extension. We also have strengthened the centralized management over the sales quota of treasury bonds and the management and control over funds to achieve effective control of system, promote the separation of business and accounting, regulate the operational procedures and prevent fund risk. Meanwhile, we have been continuously reinforcing measures including compliance education to strictly control operational risk and moral hazard and to prevent the recurrence of similar incidents.

OVERVIEW

The primary risks we face include credit risk, market risk, operational risk, liquidity risk, legal and compliance risk, information technology risk and reputational risk.

We have adopted a prudent risk management strategy and a risk appetite characterized by "moderate risk, reasonable return, and steady operation" based on our strategic development objectives, capital strength and risk management practices. We seek to enhance our overall risk management capabilities and strengthen our core competitiveness by improving our comprehensive risk management system on an ongoing basis. We were awarded "Best Risk Management Bank of the Year" by *Financial News* in 2015.

OUR RISK MANAGEMENT OBJECTIVES

Our overall risk management objectives are to maximize our risk-adjusted returns and to maintain sound capital adequacy to support our robust, steady and sustainable development. To achieve these objectives, we seek to implement the New Capital Accord and continually improve our comprehensive risk management system in the following areas:

- *Developing a prudent risk management culture*. We strengthen our compliance-focused, risk-based operation philosophy through continuous guidance and supervision from the management, strict implementation of risk management policies, and extensive employee training.

- *Setting our risk appetite and risk management policies*. We adhere to an overall risk appetite characterized by "moderate risk, reasonable return, and steady operation" and develop targeted risk management policies centered on our strategic development objectives and current business operations.

- *Improving our risk management organizational structure*. We appropriately allocate risk management responsibilities across our head office, branches and sub-branches and strengthen the connection between the business departments and risk management departments to support our risk management practices.

- *Optimizing risk management rules and procedures*. We are committed to institutionalizing and standardizing risk management as well as defining and streamlining the processes for our businesses, products and management to achieve the integration of risk management and business management.

- *Diversifying our risk management methods and tools*. We seek to enhance our targeted risk management capabilities of identifying, measuring, monitoring and controlling risks by using advanced risk management methods and tools.

- *Enhancing the effect of capital constraint*. To maintain capital at an amount commensurate with our risk profile, we seek to improve the accuracy of capital measurement and the allocation of economic capital, while enhancing management of capital adequacy ratio and control of capital limit.

- *Strengthening the risk evaluation, performance appraisal and accountability mechanisms*. We follow the principle of evaluating returns in the context of the associated risks and continually strengthen the application of risk evaluation results throughout our operational management process, especially in performance appraisal and accountability, to enhance the effectiveness of risk management.

- *Building talent pool and IT capabilities to support risk management*. We enhance the capabilities of our risk management personnel through internal training and external recruitment and continually upgrade our information systems to support our risk management practices.

OUR RECENT RISK MANAGEMENT REFORM MEASURES

In February 2014 we officially released the Framework for Building a Comprehensive Risk Management System (2014-2018) (the "Framework"). As an outline for building our risk management system, the Framework further defines the guiding philosophy, basic principles, overall objectives, major items and implementation arrangements for risk management across the bank in the coming years. In the past few years, we have been continually improving our overall risk management through the following measures:

- Developing a prudent risk management culture:

    - We adhere to a prudent culture of risk management. The Risk Management Committee of our head office leads our efforts to implement the Framework and is committed to promoting top-down notion that "risk management creates value and is everyone's responsibility."

    - We promote the understanding of capital constraint and cost of risk across the bank, enhance our staffs' awareness of their risk management reponsibilities, and foster the concept of a comprehensive risk management system centered on our bank-wide risk management policies, objectives and standards.

    - To strengthen a risk-based management philosophy, we provide various internal and external training programs for our risk management personnel of our head office and branches to assist them in understanding their risk management duties and the importance of risk management.

- Setting our risk appetite and risk management policies:
  - We set and maintain an overall risk appetite characterized by "moderate risk, reasonable return, and steady operation."
  - In recent years, we have developed mechanisms for establishing and transmitting our risk appetite:
    - The Board of Directors reviews and approves our annual plan for risk appetite at the beginning of each year and specifies major risk management strategies and limits for key risk indicators.
    - Based on the risk appetite set by the Board of Directors, the senior management formulates specific annual risk management policies pursuant to various risk management strategies and limits for key risk indicators and determines the risk control parameters and their limits for major types of risks.
    - In accordance with the risk management policies and limits for risk control parameters, our risk management departments and business departments formulate specific risk management measures, streamline the business process, and decompose the risk control parameters and monitor the implementation of such parameters.
    - Our branches and sub-branches at all levels strictly implement the risk management processes and measures in the ordinary course of business to maintain our risk profile within the limits.
  - We apply limits for key risk indicators to our 36 tier-1 branches, which include, among others, credit asset quality, industry-specific credit limit, non-compliance incidents, and information technology capabilities. In respect of maintaining the quality of our credit assets, we integrate the annual limit for NPLs into our provisioning, budgeting and other resource allocation policies in formulating mitigation plans for both existing and new NPLs in order to effectively control the growth of our NPLs.
- Improving our risk management organizational structure:
  - We have established risk management committees under both the Board of Directors and senior management, and have established risk and internal control committees at our tier-1 and tier-2 branches to organize, coordinate, decide and supervise our risk management related issues.
  - We have established independent risk management departments at our tier-1 and tier-2 branches, and designated risk management specialists at both the business departments and management departments to enhance the intensiveness and effectiveness of our risk management.

   - ○ We have established a comprehensive risk management organizational structure, including the Risk Management Department, Credit Management Department, Asset and Liability Department, Accounting and Operation Department, Legal and Compliance Department, Assets Resolution Department, Information Technology Department, Security Department, General Office, Financial Management Department, Human Resources Department, Audit Office, and other relevant departments, to cover the major types of risks to which we are exposed.

   - ○ We have established a leadership team to direct the comprehensive implementation of the New Capital Accord and work teams to organize and coordinate such implementation.

- Optimizing risk management rules and procedures:

   - ○ We have set the rules and procedures for the management of credit risk, market risk and operational risk, with specific duties and requirements for risk identification, measurement, monitoring and control.

   - ○ We have issued a series of risk management rules to ensure the bank-wide implementation of our measures in relation to model development, risk measurement and capital management. These rules include Measures on Risk and Internal Capital Adequacy Assessment Procedures, Measures on Management of Risk Measurement Model and Measures on Standards of Risk-weighted Assets Measurement.

- Diversifying our risk management methods and tools:

   - ○ We combine our own characteristics with advanced international techniques to continually diversify the risk management methods for our micro loan business.

      - ■ Leveraging our broad network, we seek to mitigate the information asymmetry problem involved in our micro loan business by adopting relationship-oriented credit investigation techniques that enable us to collect a wide range of customer information, including the customer’s employment, production and operation activities (for farm households or private business owners), family wealth, livelihood, personal habits, and reputation.

      - ■ We generally assign two client managers to conduct credit investigations for micro loans. We require our client managers to visit the customer’s residence or business premises, collect basic customer information, information relating to a customer’s production and operation activities, and intended use of proceeds, as well as photographic evidence.

      - ■ We developed the “Micro Loans and Retail Banking Business Project” in collaboration with GIZ that provides us with consultancy and training support in various areas, including product development and application, credit techniques, risk management, and information technology. GIZ is a company commissioned by the German government to provide technical support for micro loan projects in developing countries and emerging economies.

■ We continually build our risk management capabilities for our micro loan business by referencing Bank Rakyat Indonesia's success in selecting and training credit personnel and enforcing risk control.

○ We have launched the credit scoring system for our personal loan and credit card customers and are in the process of building the new generation of retail credit factory to further improve our business processes and our capabilities of measuring personal credit risk.

○ We have established scorecard system for different types of corporate customers. We have developed 31 credit risk scorecards for corporate and public institutions customers (excluding our small enterprise customers), 11 credit risk scorecards for financial institution customers, and three expert scorecards for credit risk for our small enterprise customers. We have started our internal credit risk rating program and are in the process of developing a statistical model for estimating the probability of default for SMEs. These efforts enable us to assign credit ratings to customers of our credit business and counterparties in our treasury and wealth management businesses.

○ We use scientific methodologies and models to estimate, measure, monitor and control our cash flows and make projections on our liquidity risk profile and the sufficiency of our high-quality liquid asset at different times under various scenarios, which enables us to continually enhance our liquidity risk management capabilities.

- Enhancing the effect of capital constraint: We conduct capital planning, prepare annual management plans for capital adequacy ratio, and regularly monitor and report on the implementation of such plans. We also conduct economic capital allocation and associated performance appraisal to strengthen the constraint of capital budgeting and to integrate capital management into our business operations.

- Strengthening the risk evaluation, performance appraisal and accountability mechanisms: We regularly evaluate the overall risk profiles of our 36 tier-1 branches and announce the results internally. This enables our tier-1 branches to evaluate and continually improve their risk management capabilities, which lays a solid foundation for building a sound incentive and restraint mechanism for risk management.

- Building talent pool and IT capabilities to support risk management:

  - Our risk management personnel generally have a solid background in risk management of banks and extensive experience of working on the frontline and at the business departments with a profound professional knowledge and skill of risk management.

  - Our head office and branches jointly establish special project teams to analyze specific risk management issues. This enables us to cultivate key risk management personnel that form the backbone for the risk management at our head office, branches and sub-branches and to develop a professional and efficient risk management team.

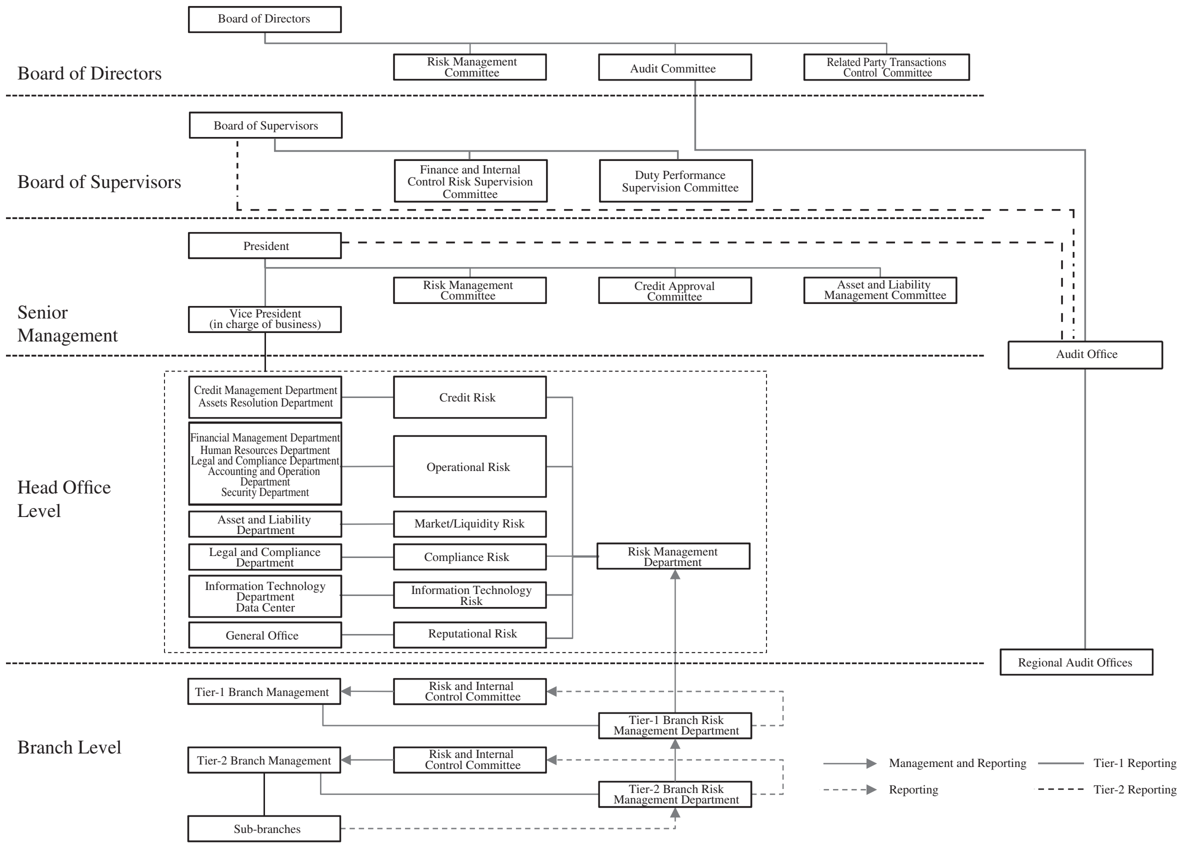
  - We have integrated the development of risk management information systems into our bank-wide information technology planning. We have also developed a credit risk monitoring system that enables us to achieve customer-product mapping by integrating data from our retail and non-retail credit business systems. This system also allows us to perform customer-oriented credit risk analysis, monitoring and risk alert and develop a multi-dimensional model for analyzing and monitoring the quality of our credit assets.

  - We are currently in the process of implementing the New Capital Accord and have formulated the roadmap for such implementation. We are also in the process of developing various consulting projects and information systems, such as our credit risk data mart, internal credit risk rating system and comprehensive risk reporting platform. These efforts allow us to continually advance our risk management information systems to support our overall risk management activities.

  - We seek to use big data risk control technologies to enhance our credit risk management and to facilitate our credit approval and risk management decision-making process based on both internal and external data. This assists us in mitigating the impact of information asymmetry and information lag in traditional risk management practices of banks and effectively improving the efficiency and accuracy of our credit approval process.

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE

The chart below illustrates the organizational structure of our risk management system:



Board of Directors and Board Committees

The ultimate responsibility for risk management rests with our Board of Directors. Our Board of Directors oversees our risk profile and the scale and pace of our business development; determines our bank-wide risk management strategies, policies and procedures; identifies the primary types of risks to which we are exposed; determines appropriate risk tolerance level and risk appetite; supervises the senior management in effectively identifying, measuring, monitoring, controlling and timely dealing with various risks to which we are exposed. Our Board of Directors performs its risk management duties through the Risk Management Committee, Audit Committee and Related Party Transactions Control Committee under its supervision. It is also responsible for reviewing major risk management related issues, monitoring the operation of our bank-wide risk management system, and overseeing our risk levels.

Risk Management Committee

The Risk Management Committee is primarily responsible for:

(i) examining and revising our risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management framework and major procedures and systems for risk management according to our general strategic development plan, and supervising and evaluating its implementation and effectiveness, and making recommendations to the Board;

(ii) reviewing plans for risk capital allocation and making recommendations to the Board; developing objectives of capital adequacy ratio management, and reviewing and supervising the implementation of our capital planning;

(iii) communicating with senior management regarding the risk management report, regularly evaluating our risk profile, risk management, and risk tolerance, and mastering the general conditions, comprehensiveness and effectiveness of our risk management practices, and making recommendations to the Board;

(iv) supervising senior management in taking necessary steps to effectively identify, evaluate, monitor and control/mitigate risks; monitoring the risk controls by and performance of duties of senior management in relation to credit, market, operational and other risks, and making recommendations to the Board;

(v) evaluating, and making recommendations for improvement of, the structure, working procedures and performance of our risk management department;

(vi) making recommendations on improving our risk management and internal control from a bank-wide and holistic perspective; and

(vii) reviewing major risk management related issues or transactions that are beyond the authority of the president and that are submitted by the president to this committee for review, and making recommendations to the Board.

Audit Committee

The Audit Committee is primarily responsible for supervising, examining and evaluating our internal control, financial accounting and internal audit practices, and making recommendations to our Board of Directors. The Audit Committee is also responsible for advising on the appointment and replacement of external auditors, supervising and evaluating the performance of the external auditors, and making recommendations to the Board of Directors.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee is primarily responsible for: (i) managing matters on our related party transactions, reviewing the management system for related party transactions, supervising its implementation, and making recommendations to the Board; (ii) identifying our related parties, reporting to the Board and Board of Supervisors, and informing our relevant staff in a timely manner; (iii) reviewing major related party transactions or related party transactions that are subject to approval by the Board or Shareholders' general meeting, and submitting to the Board or the Shareholders' general meeting through the Board for approval; (iv) to the extent authorized by the Board, reviewing and approving our related transactions and other matters in relation to such related transactions, and accepting filing of general related transactions; and (v) reviewing matters in relation to the disclosure of information on major related transactions.

Board of Supervisors

The Board of Supervisors serves as our internal supervisory body and is responsible for overseeing the Board of Directors on the formulation of our risk management strategies, policies and procedures, monitoring our risk management and internal control practices, and supervising rectification of defects in our risk management practices. The Board of Supervisors is also responsible for supervising and evaluating the performance of our Directors, Supervisors and senior management in performing their respective risk management duties.

We have established a Finance and Internal Control Risk Supervision Committee and a Duty Performance Supervision Committee under the Board of Supervisors. The Finance and Internal Control Risk Supervision Committee is responsible for: (i) examining and supervising our financial activities and making recommendations to the Board of Supervisors; (ii) supervising our business decision-making, risk management, and internal control practices, and making recommendations to the Board of Supervisors; and (iii) carrying out other duties delegated by the Board of Supervisors. The Duty Performance Supervision Committee is responsible for overseeing and evaluating the performance of their duties of the members of the Board of Directors and the senior management and making recommendations to the Board of Supervisors, and carrying out other duties delegated by the Board of Supervisors.

Senior Management and Special Committees

Our senior management is primarily responsible for organizing the implementation of our risk management policies. It carries out risk management activities pursuant to the authorization by our Board of Directors, promotes and executes the risk management strategies and risk appetite set by our Board of Director, and coordinates our bank-wide risk management practices.

Risk Management Committee

We have established a Risk Management Committee at the senior management level. Based on our risk management strategies and risk appetite approved by the Board of Directors, the Risk Management Committee is responsible for: (i) reviewing the implementation plans of our bank-wide risk management strategies, as well as the fundamental policies, rules and procedures for risk management and internal control; (ii) evaluating our bank-wide risk management and internal control practices, assessing significant risk issues, and reviewing the associated resolution plans; (iii) reviewing our bank-wide capital management policies, rules and procedures and related issues; (iv) reviewing the methods, standards and parameters for our bank-wide credit rating and the adjustment mechanism for credit rating; (v) reviewing the standards, methods and processes for asset risk classification and provisioning as well as their adjustment mechanisms; and (vi) reviewing the rules, procedures and processes for the standards, methods and evaluation involved in the management of various types of risks, including credit risk, market risk, operational risk and compliance risk.

The Risk Management Committee at the senior management level consists of members of our senior management and the heads of relevant departments. The president and the vice president act as the chairman and vice-chairman, respectively, of the committee. The other members of the committee consist of the heads of relevant departments. The committee meets at least once every quarter.

Credit Approval Committee

The Credit Approval Committee is responsible for approving credit applications submitted by our branches, sub-branches and the departments of our head office pursuant to our credit approval system and authorization. The Credit Approval Committee is chaired by the vice president in charge of credit management, while the other members consist of appointed qualified personnel from the front, middle and back offices in relation to credit management.

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for reviewing our asset-liability management strategy, coordinating our overall asset-liability management and related business, and making related decisions. The Asset and Liability Management Committee is chaired by the vice president in charge of asset-liability management, while the vice presidents in charge of financial management and financial market business act as the vice chairmen. The other members consist of the heads of our major business and management departments.

Risk Management Related Departments at Our Head Office

Risk Management Department

The Risk Management Department at our head office leads our bank-wide risk management practices and is primarily responsible for: (i) overseeing and examining the implementation of risk management strategies, policies and measures; (ii) setting our risk management strategies and frameworks and coordinating the implementation of these strategies and frameworks, and developing fundamental policies, rules and procedures for our comprehensive risk management system; (iii) leading the management of credit risk, market risk and operational risk; (iv) coordinating our bank-wide capital management practices to ensure compliance with applicable regulatory capital requirements; (v) setting the standards, methods, tools and processes for assets risk classification and provisioning; (vi) analyzing the New Capital Accord and leading its implementation; (vii) monitoring, gathering, analyzing and reporting on information relating to our bank-wide risk management practices and leading our efforts to resolve significant risk issues; (viii) supervising, analyzing and evaluating the risk management practices of relevant departments at our head office and branches to advocate the effective implementation of rules, procedures and measures of our comprehensive risk management system; and (ix) providing administrative support for, and facilitating decision-making by, the Risk Management Committee at the senior management level.

Credit Management Department

The Credit Management Department is primarily responsible for the formulation of credit approval policies, the review and approval of credit applications, and the overall management of our credit business. The Credit Approval Center under the Credit Management Department is responsible for conducting customer credit rating, credit extension and review and approval of single credit application within its authorization limit, and coordinating our bank-wide credit risk management under the framework of our comprehensive risk management system.

Asset and Liability Department

The Asset and Liability Department is primarily responsible for our bank-wide asset-liability management. The Asset and Liability Department supervises risk control by our branches and sub-branches and departments at all levels through various means, including integrated asset-liability planning, credit allocation, liquidity cost pricing, economic capital management and pricing management. It is also responsible for coordinating our bank-wide efforts to manage liquidity risk, currency risk and interest rate risk in the banking book under the framework of our comprehensive risk management system.

Accounting and Operation Department

Through a bank-wide centralized operational platform, the Accounting and Operation Department is primarily responsible for managing risks arising from the accounting and clearing process and from our business operations. It is also responsible for coordinating our risk management efforts in relation to accounting, clearing of funds and the operations of our outlets under the framework of our comprehensive risk management system.

Legal and Compliance Department

The Legal and Compliance Department is primarily responsible for: (i) leading our bank-wide risk management practices relating to legal and compliance under the framework of our comprehensive risk management system; (ii) leading our efforts to build our internal control system; (iii) coordinating our efforts to organize internal control compliance inspections, prevent and control non-compliance incidents, and determine the accountability of non-performing assets; (iv) managing the documentation of authorization and delegation of authorization; (v) guiding and supervising our head office, branches and sub-branches and departments in improving their internal control and risk management practices; and (vi) leading our anti-money laundering efforts.

Assets Resolution Department

The Assets Resolution Department is primarily responsible for the collection, maintenance and disposal of non-performing assets and foreclosed assets.

Information Technology Department

The Information Technology Department is responsible for coordinating our bank-wide planning, management and development of our information technology systems, and leading our bank-wide management of information technology risk and cybersecurity under the framework of the comprehensive risk management system.

Data Center

The Data Center is primarily responsible for the operation and maintenance of our information systems and the appraisal of their performance. It is also responsible for the integrated operation and maintenance of our three data centers in two cities, developing data recovery systems, and running data recovery emergency drills. The Data Center is also responsible for ensuring the security of our information systems and formulating and implementing plans for our information technology infrastructure, network, hosts and storage facilities, cybersecurity system, as well as the operation and maintenance system.

Security Department

The Security Department is primarily responsible for preventing external theft and bank robbery and managing our overall physical security.

General Office

The General Office is primarily responsible for managing our public relations and leading our bank-wide reputational risk management.

Financial Management Department

The Financial Management Department is primarily responsible for formulating our operational plans and fixed asset investment plans, and the policies for costs and expenses, financial budgets and performance appraisal. It is also responsible for implementing our bank-wide financial risk management efforts.

Human Resources Department

The Human Resources Department is primarily responsible for guiding and supervising our head office, branches and sub-branches and departments in managing various types of risks and implementing our risk management policies and requirements through proper job design, staff training, and sound compensation and incentive policies.

Audit Office

The Audit Office is responsible for our internal audit. Internal audit refers to the independent and objective supervisory, evaluation and consulting activities performed by our dedicated auditing units and personnel to review, assess, and supervise the improvement of, the effectiveness of our business operations, risk management, internal control and compliance and corporate governance practices through institutionalized and standardized methods to ensure our steady operations and increase our value.

Risk Management Structure at Our Branches and Sub-branches

We have established risk and internal control committees and independent risk management departments at the management level at our tier-1 and tier-2 branches. Risk management departments at our tier-1 and tier-2 branches are responsible for leading the risk management practices at the respective location and reporting to the risk management departments at our head office and tier-1 branches, respectively. We have also designated risk management liaison officers at the business and management departments at each of our branches and sub-branches. Each liaison officer is required to report regularly to the risk management department at the same level which is, in turn, required to report to the risk management department at the supervising branch (including our head office, as applicable).

Risk Management Structure at Our Agency Outlets

We have formulated rules to implement the Measures for the Administration of Agency Business Institutions issued by the CBRC and integrated agency outlets into our comprehensive risk management system. The major risks our agency outlets are exposed to include operational risk, compliance risk, and reputational risk. We formulate plans and standards with regards to eligibility of our agency outlets, and require our tier-1 branches and relevant Postal Affiliates at the provincial level that plan to establish a new agency outlet to maintain solid, effective internal control, risk management and accountability mechanisms with no record of major non-compliance incidents for the past two years. Staff at our agency outlets are employed and managed by the corresponding Postal Affiliates. We review the qualifications of, and cooperate with the Postal Affiliates in arranging qualification examination for, the heads of our agency outlets.

There is a clear division of responsibilities between our Bank and the corresponding Postal Affiliates with respect to risk management for the agency outlets. We are responsible for: (i) formulating specific risk management requirements in various areas, including personal deposits and intermediary business, accounting settlement, clearing of fund, network operations, internal control, legal and compliance, anti-money laundering, information technology, reputation and public relations and safety and security; and (ii) guiding and assisting the corresponding Postal Affiliates in establishing and enhancing risk management systems for our agency outlets that enable us to effectively identify, measure, monitor and control various types of risks arising from the business operations of our agency outlets. The corresponding Postal Affiliates are responsible for: (i) establishing internal control, risk management and accountability mechanisms based on our risk management requirements, whileintegrating the operational procedures of our agency outlets with our requirements for identifying, controlling, mitigating and monitoring various types of risks; and (ii) creating risk management positions, designating a sufficient number of risk management personnel, and continually strengthening essential risk management infrastructure to ensure proper functioning of the risk management systems of our agency outlets.

We and the corresponding Postal Affiliates have each formulated rules and procedures for performing regular compliance inspections on the agency outlets, and share the inspection results through joint conferences and special meetings on the prevention of non-compliance incidents. The corresponding Postal Affiliates shall take timely rectification measures and identify the personnel accountable for the issues we identify in the inspections, and shall report to us on the implementation of such rectification measures and accountability. The Postal Affiliates at each level have established compliance management committees for agency financial risks that is responsible for the communication and coordination efforts with regard to risk and compliance management relating to the financial services we provide through our agency outlets. The Agency Business Department of China Post Group has established an Internal Control Division to formulate risk management rules and procedures, refine the internal control management systems and manage compliance of the agency outlets with applicable laws and regulations.

We divide our agency outlets into different tiers and adopt differentiated administrative measures depending on their scale of business, human resources and risk management capabilities to achieve continual analysis, monitoring, and evaluation of the business operations and risk profiles of our agency outlets. We periodically review such classification and make adjustments based on results of the review. We also adopt differentiated standards in respect of the permitted scope of business, staff training and customer eligibility for our agency outlets at different tiers. Our tier-2 branches and branches at a higher level may, within the scope of authorization by the supervising branch (including our head office, as applicable), timely limit the scope of business of low-tier agency outlets that have relatively high risk profile.

We formulate rules, procedures and processes for the information technology operations of our agency outlets pursuant to applicable regulatory requirements, and build reliable networks, systems and application architecture for our agency outlets. We also use necessary network and data security technologies to ensure the proper functioning of the systems and the cybersecurity of our agency outlets.

We adopt various rules and procedures for the physical security of our agency outlets. Postal Affiliates at all levels are responsible for supervising the implementation of these rules and procedures to strengthen the day-to-day security management and to ensure that qualified security infrastructures are in place at our agency outlets. We fully utilize our off-site monitoring centers and maintain remote surveillance on our agency outlets on a 24/7 basis under the supervision of designated risk management specialists familiar with business and risk control and seek to enrich our physical security technologies and solutions.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or its reduced capacity of fulfilling its contractual obligations. We are exposed to credit risk primarily through our loan portfolio, treasury business, and off-balance sheet credit businesses.

We have built a credit risk management structure covering the entire process of our credit business with established policies and procedures to identify, measure, monitor, control and report on credit risk. We have developed a set of standardized rules and procedures for authorization and credit extension management. We also seek to improve our credit risk management capabilities by various means, including formulating rules and procedures for assigning internal credit ratings to customers and determining risk limits, upgrading the credit risk management information systems, implementing assets risk classification and further tightening credit review and supervision.

Credit Guidelines

We place great importance to implementing our credit guidelines and are dedicated to striking a balance between sound loan growths and maintaining a prudent culture of risk management. Our credit guidelines consist of our annual credit guidelines and credit policies specific to key industries or regions. These guidelines govern out credit extension in various aspects, including industry, region, customer, product, and management. We generally review and update our credit guidelines on an annual basis. We also update our credit guidelines in a timely manner to respond to changes in government policies, economic environment and our own risk profile.

Our credit guidelines for key industries consist primarily of overall credit strategies, customer eligibility standards, designation of key sectors, credit management requirements as well as major risk control requirements. We adjust dynamically our industry-specific credit guidelines based on a number of factors, such as changes in relevant laws and regulations, industrial policies of the PRC government, industry trends and the effectiveness of our existing credit guidelines. We have developed credit guidelines for 66 industries, including, among others, modern agriculture, equipment manufacturing, real estate, steel and steel trading, and coal. We classify these industries into four categories, namely, encouraged entry, moderate exposure, cautious entry and reduction & exit. We also classify our corporate customers into four categories, namely, prioritized support, moderate support, cautious support and reduction & exit to guide our marketing efforts towards these customers. In addition, we set credit risk limits for certain high-risk industries, such as real estate, coal and steel, to further control our exposure to over-capacity industries.

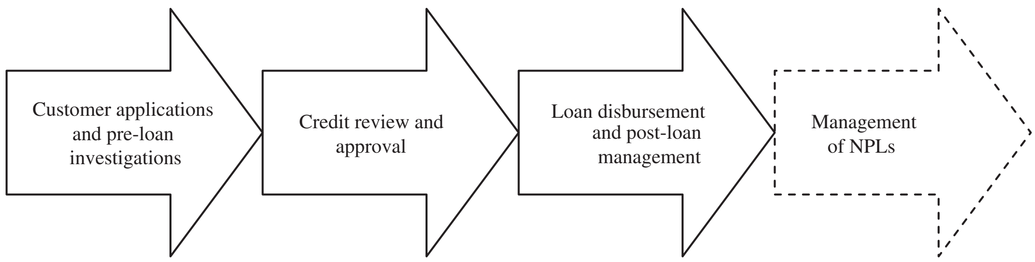
We also maintain credit guidelines that are specific to small and micro enterprises. We classify the industries in which these customers operate into four categories, namely, encouraged entry, moderate exposure, cautious entry and reduction & exit. We also classify our customers that are small and micro enterprises into four categories, namely, prioritized support, moderate support, cautious support and reduction & exit. Our credit guidelines for key industries contain specific eligibility criteria for small and micro enterprises operating in certain industries. Such credit guidelines specially cover small and micro enterprises in 15 key industries to guide our marketing efforts towards them and relevant credit approval and extension management.

We put great emphasis on developing Green Credit. To implement relevant government and regulatory requirements, we have: (i) continually improved the long-term development mechanism for Green Credit and developed systems for environmental and social risk management; (ii) refined differentiated Green Credit policies to support the development of green economy, low-carbon economy and recycling economy; (iii) managed Green Credit on an end-to-end basis and improved the incentive mechanism for Green Credit; and (iv) strengthened risk identification and monitoring to effectively prevent and control environmental and social risks.

Credit Risk Management for Corporate Loans

Credit Risk Management for Corporate Loans (Excluding Corporate Loans to Small Enterprises)

The following flow chart illustrates the basic process for extension of corporate loans:



Customer Applications and Pre-loan Investigations

We conduct pre-loan investigations upon the submission of corporate loan applications. We generally require a corporate loan applicant to provide necessary supporting documents, such as the organizational documents and financial statements of the applicant and, where applicable, the guarantor. Upon the receipt of the application, our client managers conduct pre-loan investigations to assess the creditworthiness of the applicant pursuant to established procedures and requirements. The responsibilities of our client managers include collecting customer information, reviewing loan application materials, assigning customer credit ratings, calculating risk limits, and preparing credit investigation reports. We assign two client managers to conduct pre-loan investigations to control operational risk that may arise in the course of the pre-loan investigation. We require the investigators to inspect the borrower's business premises and manufacturing equipment on site and to interview the managers and staff of the borrower before preparing the due diligence report.

We focus on the following factors in performing pre-loan investigations: (i) risks associated with the industry in which the borrower operates; (ii) the borrower's financial condition measured by, among other things, cash flows, income, total assets and sources for repayment; (iii) competitiveness and growth potential of the borrower's business; (iv) intended use of loan proceeds; (v) the borrower's credit history; and (vi) the repayment ability of the guarantor and the value of the collateral.

Customer Credit Rating

We assign credit ratings to our corporate customers based on our internal credit rating criteria before extending credit. We maintain a 18-grade credit rating system consisting of AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB, B, CCC, CC, C, and D (grade C and D are default ratings) for our corporate loans. In assigning credit ratings to corporate customers, we take into consideration various factors, including industry risk and various types of information about the borrower, such as its operating strength, financial condition, solvency, profitability, business prospects, industry position, corporate governance and financing capabilities.

We have developed 25 customer rating models that enable us to assign customers ratings based on qualitative and quantitative assessments and special adjustment factors. We do not modify credit rating assigned unless supported by sufficient evidence. A rating upgrade is authorized only by the Credit Approval Committee or the Credit Approval Center of our head office, while there is no restriction on authorizing a rating downgrade.

We generally re-assign customer ratings on an annual basis. If there are significant changes in a corporate customer's financial condition or business operations, we evaluate the impact of these changes and may adjust the customer's credit rating as we see fit.

We also use a 16-grade debt rating system based on expected loss for corporate loans. We currently have six specialized debt rating models in place for corporate loans based on the characteristics of our business.

Appraisal of Collateral and Guarantee

We conduct collateral appraisals prior to approving an application for secured loans. Collateral appraisals are carried out by our internal personnel or third-party appraisers approved by us, while the appraised value is subject to the final confirmation by our internal personnel.

We determine the loan-to-value ratios of loans by taking into account various factors such as customers' creditworthiness, type of collateral, volatility of the value of collateral and liquidity of collateral. The table below sets forth the loan-to-value ratio limits set by us in respect of major types of collateral.

Type of Collateral	Maximum Loan-to-value Ratio
Mortgage	
Buildings	70%
Land use right	70%
Vehicles	60%
Pledge	
Certificate of time deposit	90%-100%
Bank notes	90%-100%, depending on the acceptor's credit rating
Receivables	70%

We generally require reappraisal of our collateral on a regular basis and have formulated policies on the reappraisal frequency for various types of collateral. In determining the maximum amount guaranteed by a third-party guarantor, we consider the financial condition, credit histories, and ability to fulfill its obligations of the guarantor. We require the buildings and land use rights held as collateral to be reappraised on an annual basis upon the anniversaries of the loan disbursement, while the frequency of reappraisal of other collateral depends on their respective nature. For example, we require accounts receivables as collateral to be reappraised on a semi-annual basis and collection rights of future cash flows as collateral to be reappraised on an annual basis. We conduct daily mark-to-market on tradable stock and commodities warehouse receipts and determine their appraised value based on their market prices on each day, and we require additional collateral or deposits if the value of the collateral falls below the level we agreed in writing with the guarantor to ensure the adequacy of the value of the collateral. We will immediately start the process of reappraisal for collateral if any significant risk incident occurs before the time for periodic reappraisal of such collateral, including but not limited to (i) significant decrease in the market price of the collateral, (ii) deterioration of the borrower's financial condition, (iii) bankruptcy or restructuring process initiated by the borrower, and (iv) migration of the loan from performing to non-performing.

After loan disbursement, we conduct the collateral reappraisals mainly by our internal personnel, which are complemented by appraisals by third-party appraisers. For collateral that has an open market and the number of such collateral held by us is large (for example, the residential properties), the reappraisal value is generally determined by the branches extending and managing the relevant loans by reference to market prices. For collateral, the value of which is supported by the returns on certain projects (for example, collection right of future cash flows), the reappraisal value is generally determined by the branches extending and managing the relevant loans by recalculating the returns on the projects. When collateral is invoked by disposal with discounted prices, auction and selling off, the value of the collateral value are to be appraised by external appraisers.

The branches extending and managing the relevant loans determine whether or not the collateral is sufficient based on the collateral reappraisal and mitigate risks arising from insufficient collateral by suspending drawdown, reducing credit line, as well as requesting additional collateral or early repayments.

The staff responsible for collateral management in the credit management departments of our branches, sub-branches and head office supervise and inspect the implementation of our collateral appraisal policies and procedures in their respective jurisdictions through off-site monitoring or on-site inspections.

Credit Review and Approval

We review and approve corporate loan applications primarily at our head office or branches within their respective authorization limits. Approval of corporate loan applications is carried out by the credit approval committees and qualified, authorized credit approval officers at our head office and branches. We review and determine authorization limits of our branches on an annual basis and make adjustments as needed.

Upon receipt of the due-diligence report and the borrower's supporting materials, the business managers at the originating branch or sub-branch review the loan application before submitting it to the relevant credit management department. Corporate loan applications originated from our head office are directly submitted to the Credit Management Department at our head office, while those originated from our branches and sub-branches are submitted to the credit management departments at the branch level. Corporate loan applications exceeding the authorization limit of the originating branch or sub-branch are submitted to the credit management department of its supervising branch (including our head office, as applicable) for review.

Loan applications submitted to the Credit Management Department are subject to review by two approval officers. The first approval officer reviews and signs on his or her recommendations before submitting it to the chief reviewer for review.

The credit management department determines the applicable approval process and designates the authorized approval officers based on its approval authorization limit. Corporate loan applications are reviewed by, as the case may be, a single approval officer, a panel of two approval officers, or the credit review committee at our head office or branches. Corporate loan applications exceeding the authorization limits of the authorized approval officers are submitted to the credit review committee of the originating branch, while those exceeding the authorization limit of such credit review committee are submitted to the supervising branch (including our head office, as applicable) for approval. Members of the credit review committees jointly review the loan applications, while the chairman (including the vice-chairman) has the power to veto the application. For review by a single approval officer or a panel of two approval officers, the reviewers are authorized by the head of the originating branch and review and approve corporate loan applications independently within their authorization limits.

Upon the approval by the credit review committee or the authorized approval officer, the application is submitted to the authorized final approver for final approval. This position is generally filled by the head of the originating branch or the deputy head(s) in charge of credit management. While the authorized final approver has the power to veto applications, he or she has no right to approve those applications denied by the credit review committee or the authorized approval officer.

Loan Disbursement and Post-loan Management

The Accounting and Operation Department disburses the loans after confirming that all relevant criteria are fulfilled. Our business departments, credit management departments and risk management departments share the post-loan management and supervising responsibilities. Our post-loan management includes cash account monitoring, on-site inspections, routine tracking, supervision of the collateral or guarantor, risk alert and resolution, credit asset risk classification, record-keeping and recovery of loans.

Management of Drawdown

Our business departments are responsible for ensuring that all the conditions precedent to credit extension and drawdown are fulfilled before signing the facility agreement. We have designated specialists at the accounting and operational departments of our tier-1 and tier-2 branches to ensure the fulfilment of these conditions precedent and to supervise the compliance of the borrower with the facility agreement, collateral arrangement and other loan disbursement procedures.

Post-loan Inspections

We conduct initial follow-up inspections and subsequent routine inspections at the post-loan stage. We conduct initial follow-up inspections usually within 10 business days of the disbursement of project loans, credit lines for new customers, and incremental credit lines for existing customers. We conduct routine inspections on a regular basis by conducting customer visits, periodical examinations and continuous monitoring. The frequency of our routine inspections varies depending on whether a customer is new or existing, the importance of the customer to our business, the customer's credit rating and the type of loan products. We employ a variety of methods for routine inspections, including monitoring and analyzing the borrower's cash flows, periodic on-site inspections of the collateral, generating risk alerts through IT platform, timely notification to the borrower of the maturity dates, and periodic customer visits.

Risk Alert

We have established risk alert mechanisms at our branches and sub-branches at all levels in order to timely identify and mitigate risks by monitoring various types of information about the borrower, such as its account, financial condition and suppliers and customers, as well as industry and national macroeconomic trends.

Upon identifying a potential risk issue during post-loan management, our client managers and risk management personnel are required to report to, and confirm with, relevant front office departments in a timely manner, and the front office departments shall develop appropriate action plans. The credit management department shall review the risk level and the action plans, and, where necessary, consult with the Legal and Compliance Department, Assets Resolution Department, Risk Management Department and other relevant departments. Action plans for general alerts shall be submitted to and approved by the head of the credit management department, while those for urgent alerts shall be submitted to and approved by the head of the relevant branch in charge of the management of risk alerts, or other authorized approval officers.

Loan Classification

We divide our corporate loans into 12 categories according to the five-category loan classification system (normal, special mention, substandard, doubtful and loss) as required by the CBRC. These categories include four categories for normal loans, three categories for special mention loans, two categories for substandard loans, two categories for doubtful loans, and one category for loss loans (substandard, doubtful and loss loans are considered non-performing). When classifying a corporate loan, we consider various factors, including the ability and willingness to repay the loan and track record (including past default behavior) of the borrower, the guarantee or the collateral, as well as the profitability of the project funded by the loan. We conduct loan classification for outstanding loans on a quarterly basis. Our corporate loans are initially classified by the credit business departments and subsequently reviewed by the risk management departments and approved by the authorized approval officers within their authorization limits. We reclassify our corporate loans based on loan risk monitoring on a real time basis.

Loan Portfolio Management

Credit Risk Management for Loans to Local Government Financing Vehicles

We manage the credit risk arising from our loans to local government financing vehicles, or LGFVs, pursuant to relevant government policies, regulations as well as our own credit policies. We tend to make loans to LGFVs that are commercially run with adequate cash flow coverage, or loans to LGFVs: (i) sponsored by local governments with strong fiscal position and low leverage ratio; (ii) the proceeds of which are to finance the construction of key infrastructure and public welfare projects covered by the local government budget; and (iii) with sources of repayment secured by the provincial and municipal governments. We approve LGFV loans at the head office level within a total permissible exposure limit. We require legitimate, valid and adequate collaterals for LGFV loans and set their maturities based on the expected cash flow and the progress of the projects. For medium- and long-term LGFV loans, we require the borrowers to repay the interests concurrently with the principals on at least a biannual basis. We closely monitor changes in the LGFV's operations and the fiscal condition of relevant local governments, as well as risks arising from a concentration in the maturity dates of our LGFV loans. We also monitor the amount due and sources of repayment for our LGFV loans on a monthly basis and urge LGFV borrowers to carry out their plans for repaying their loans that are due.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our LGFV loans were RMB93.3 billion, RMB95.0 billion, RMB100.6 billion and RMB106.1 billion, respectively, representing 13.2%, 11.8%, 10.3% and 10.3%, respectively, of our total corporate loans as of the same dates. As of March 31, 2016, our loans to LGFVs at the provincial, municipal, and county (district) level were RMB73.2 billion, RMB26.7 billion, and RMB6.3 billion, respectively, representing 69.0%, 25.1% and 5.9%, respectively, of our total loans to LGFVs. As of the same date, in terms of cash flow coverage ratio (cash flow of the borrower divided by the sum of principal of and accrued interests on the loan), loans extended to borrowers with full repayment of the principal and accrued interests amounted to RMB106.0 billion, representing 99.9% of our loans to LGFVs; loans extended to borrowers with sufficient cash flow to repay 70% to 100% of the principal and accrued interests amounted to RMB91 million; loans extended to borrowers with cash flow to repay 30% to 70% of the principal and accrued interest were nil. As of March 31, 2016, our loans to LGFVs secured by mortgage, pledge or guarantee amounted to RMB78.3 billion, representing 73.79% of our total loans to LGFVs. As of March 31, 2016, the NPL ratio for our loans to LGFVs was nil.

Credit Risk Management for Real Estate Loans

We maintain a white list for qualified real estate borrowers. Other than certain low-risk projects, we only extend real estate loans to qualified borrowers with high-profile projects. We also set limits on our exposure to loans to real estate development industry. We insist on extending loans to prominent customers, high-quality projects and loans to borrowers located in key regions. In addition, we primarily target leading national real estate enterprises, and residential property projects in first-tier cities or in second-tier cities where there is a lack of supply of, and a high demand for, residential properties. We are particularly conservative in extending loans to finance real estate developments in third- or fourth-tier cities. We focus on residential development loans and take a cautious approach for extending commercial real estate loans, loans secured by commercial properties, and loans financing development of tourism properties. We require real estate loans to generally be secured by at least two types of collaterals among land use rights, construction-in-progress and guarantee provided by the holding company or the shareholders of the borrower. We focus on strengthening risk management for real estate loans in respect of regional exposure, the borrower's financial conditions, compliance of the project with applicable laws and regulations, custodian services for loan account and the collateral. We require periodic reappraisal of the collateral and demand foreclosure of the collateral or require additional security if the value of the collateral declines. We conduct stress tests on at least an annual basis for real estate loans in accordance with applicable regulatory requirements.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our corporate loans to the real estate industry were RMB20.1 billion, RMB27.3 billion, RMB41.1 billion and RMB40.9 billion, respectively, representing 2.8%, 3.4%, 4.2% and 4.0%, respectively, of our total corporate loans. As of the same dates, our real estate loans secured by collateral, pledge and guarantee accounted for 98.8%, 100.0%, 94.3% and 93.8%, respectively, of our total real estate loans. As of March 31, 2016, the NPL ratio for our loans to the real estate industry was 0.04%.

Credit Risk Management for Loans to Over-capacity Industries

We have formulated differentiated entry, reduction and exit criteria for different industries, customers and projects in accordance with relevant government policies and regulations designed to reduce the excess production capacity. We do not extend any form of new credit lines to enterprises or projects that are not in line with the national industry policies or our own customer eligibility standards. We impose exposure limit on our lending to over-capacity industries to control our overall risk exposure to associated industries and borrowers. We have identified key areas for our due diligence on environmental and social risks and have formulated a compliance review checklist, and have adopted differentiated approaches for the approval process, approval authorization and post-loan risk management measures for our loans to over-capacity industries. We have been continually streamlining the process of approving loans to industries with high pollution, high energy consumption and over-capacity, as well as Green Loans. We do not extend loans to non-eco-friendly industries, and we do not accept, review or approve applications for loans to businesses that are not in compliance with applicable environmental laws and regulations. We have established industry-wise, region-wise and customer-wise risk monitoring and alerting mechanisms to control our exposure to over-capacity industries. We monitor key customers on a monthly basis and issue risk alerts in a timely manner to prevent and mitigate potential credit risks.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our loans to over-capacity industries were RMB33.6 billion, RMB40.7 billion, RMB67.3 billion and RMB67.5 billion, respectively, representing 2.2%, 2.2%, 2.7% and 2.5%, respectively, of our total loans. As of March 31, 2016, the NPL ratio for our loans to over-capacity industries was 0.34%.

Credit Risk Management for Corporate Loans to Small Enterprises

The Small Enterprise Finance Department is responsible for managing our corporate loans to small enterprises and personal business loans. We have established departments and professional teams dedicated to managing corporate loans to small enterprises with a clear allocation of responsibilities among relevant positions at all levels. We provide training programs and arrange qualification examinations for our key personnel, such as the client manager, product manager and post-loan manager, to strengthen their risk control awareness as well as their ability to respond to risks. We have developed rules and procedures that are specific to small enterprise customers, including those relating to termination of loans to delinquent customers and the management of risk alert, in order to prevent and mitigate credit risks associated with small enterprises. We are also proactively optimizing our information systems and operational processes to enhance our risk data mining and analysis capabilities.

Pre-loan Investigations

We conduct pre-loan investigations upon the submission of applications for corporate loans to small enterprises. We generally require the applicant to provide necessary supporting documents, such as the organizational documents and financial statements of the applicant and, where applicable, the guarantor. Upon the receipt of the application, our client managers conduct pre-loan investigations to assess the creditworthiness of the applicant pursuant to established procedures and requirements. The responsibilities of our client managers include collecting customer information, reviewing loan application materials, assigning customer credit ratings, calculating the limits of credit lines, and preparing credit investigation reports. We assign two client managers who have passed our internal appraisal to conduct pre-loan investigations on small enterprise customers to control operational risk that may arise in the course of such investigations. We require our client managers to inspect the borrower's business premises and manufacturing equipment on site and to interview the managers and staff of the borrower before preparing the due diligence report. Our extensive service network allows us to effectively cross check information we obtain in pre-loan investigations, thus enhancing our ability to identify risks.

We have a separate credit rating system for our small enterprise customers. Under this system, small enterprise customers are classified into seven categories, namely, AAA, AA, A, BBB, BB, B and C. We do not accept loan applications made by applicants with a rating below BBB. In assigning credit ratings for small enterprise customers, we take into consideration various factors, including the basic information of the customer and its actual controller, the customer's financial and operational conditions, its growth potential as well as any prior relationships between the customer and us.

Appraisal of Collateral and Guarantee

We conduct collateral appraisals prior to approving an application for secured loans. Collateral appraisals are carried out by our internal personnel or third-party appraisers approved by us, while the appraised value is subject to the final confirmation of our internal personnel.

Credit Review and Approval

We review and approve applications for corporate loans to small enterprises primarily at our tier-1 and tier-2 branches within their respective authorization limits. Approval of such applications is carried out by the credit approval committees and qualified, authorized credit approval officers at our branches. We review and determine authorization limits of our branches on an annual basis and make adjustments as needed.

We have dedicated personnel that are responsible for reviewing applications for corporate loans to small enterprises at our branches. Upon receipt of the due diligence report and the borrower's supporting materials, the business managers at the originating branch and sub-branch review the loan application before submitting it to the credit management department at the relevant tier-2 branch. Applications exceeding the authorization limit of the relevant tier-2 branch are submitted to the credit management department at the relevant tier-1 branch.

Upon the completion of the review, applications that are within the authorization limit of the originating branch will be approved by approval officers at the same level, while those exceeding such authorization limit will be submitted to the supervising branch (including our head office, as applicable) for review and approval. We focus primarily on the financial information and operating condition of the borrower when approving applications for corporate loans to small enterprises and generally require the borrower to provide collateral, pledge or guarantee to mitigate and strengthen the management of associated risks.

Applications for corporate loans to small enterprises are approved by, as the case may be, a single approval officer, a panel of two approval officers, or the credit review committee, and are subject to the final approval by the authorized final approver. The position of authorized final approver is generally filled by the head of the originating branch or the deputy head(s) in charge of credit management. While the authorized final approver has the power to veto applications, he or she has no right to approve those applications denied by the credit review committee or the authorized approval officer.

Loan Disbursement and Post-loan Management

The Accounting and Operation Department disburses the loans after confirming that all relevant criteria are fulfilled. We perform post-loan inspections and management for our corporate loans to small enterprises based on the customer's risk and the outstanding amount of the loans. Post-loan inspections include the initial inspection, routine inspections, and special inspections into the availability of repayment funds. To strengthen post-loan risk management, we require the originating branches to conduct inspections into the source of repayment, submit monthly inspection reports, and hold regular meetings on post-loan management and analysis. We maintain a list for key borrowers of our non-performing corporate loans to small enterprises, and require the originating branches to develop plans for reducing our exposure to high-risk small enterprise customers. We visit our large borrowers on a regular basis and require our credit management personnel (including the heads of our tier-2 branches and managers for small enterprise loan business) to make customer visits depending on the respective loan amounts.

Credit Risk Management for Personal Loans

Risk Management Measures for Personal Loans

We continually optimize the organizational structure for personal loan management and have established an independent and professional credit management system to achieve effective check and balance among the front, middle and back offices and among personnel with conflicting duties.

Pre-loan Investigations

Our client managers conduct due diligence on the applicant upon receipt of a personal loan application. We conduct both on-site and off-site investigations for personal loans, primarily conducting on-site investigations for business loans and off-site investigations for consumer loans. In conducting pre-loan investigations, we primarily consider the applicant's basic information, credit history and his or her income, the intended use of proceeds, the source, methods and ability of repayment, as well as the security of the loan. Our client managers issue investigation reports after inspecting the supporting documents and verifying the information provided by the applicant. We also have a personal credit scoring system in place that uses scorecards for evaluating the applicant's credit profile.

Credit Review and Approval

We review and approve applications for personal loans primarily at our tier-1 and tier-2 branches within their respective authorization limits. Approval of such applications is carried out by the credit approval committees and qualified and authorized credit approval officers at our branches. We review and determine authorization limits of our branches on an annual basis and make adjustments as needed.

We have dedicated personnel that are responsible for reviewing applications for personal loans. Upon receipt of the due diligence report and the borrower's supporting materials, the business managers at the originating branch and sub-branch review the loan application before submitting it to the credit management department at the relevant tier-2 branch. Applications exceeding the authorization limit of the relevant tier-2 branch are submitted to the credit management department at the relevant tier-1 branch.

Upon the completion of the review, applications that are within the authorization limit of the originating branch will be approved by approval officers at the same level, while those exceeding such authorization limit will be submitted to the supervising branch (including head office, as applicable) for review and approval.

Applications for personal loans are approved by, as the case may be, a single approval officer, a panel of two approval officers, or the credit review committee.

Loan Disbursement and Post-loan Management

The Accounting and Operation Department disburses the loans after confirming that all relevant criteria are fulfilled.

The personal loan department of the originating branch is responsible for the post-loan management for personal loans, which is carried out by the client managers and other designated personnel at the same branch. We monitor our risk exposure to personal loans through various measures including routine post-loan management, post-loan inspections (customer visits), account monitoring and online monitoring. We take necessary measures to timely respond to risk alerts to prevent and mitigate associated risks and to reduce the default losses. We have also established mechanisms for reducing our exposure to certain high-risk personal loan customers. For our measures for collateral appraisal and management for personal loans, see "— Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Risk Management for Corporate Loans (Excluding Corporate Loans to Small Enterprises) — Appraisal of Collateral and Guarantee."

Our credit management system automatically classifies our personal loans into five categories based on the number of days overdue and the type of security. The business departments and risk management departments may make adjustments to the loan classification based on the information collected through credit monitoring.

Credit Risk Management for Consumer Loans

Our Consumer Credit Department is responsible for the centralized management of our consumer loans. We have established a team of professionals to conduct our consumer loans business with a clear allocation of risk management responsibilities across all levels. We provide training programs and arrange qualification examinations for key personnel in order to enhance their risk management awareness and capabilities of responding to risks on an ongoing basis. We take various credit risk management measures for consumer loans covering the acceptance of loan applications, pre-loan investigations, review and approval of loan applications and post-loan management.

Acceptance of loan applications. We require our client managers to meet applicants for consumer loans face-to-face in order to prevent fraudulent mortgages and other loan fraud.

Pre-loan investigations. We conduct both on-site and off-site pre-loan investigations for consumer loans. We generally conduct off-site investigations for salaried borrowers and on-site investigations for self-employed borrowers. We also cross check information we obtain from other sources for a complete assessment of the customer's risk profile.

Review and approval of consumer loan applications. To effectively control associated credit risks, we require consumer loan applications to be reviewed and approved at our tier-1 and tier-2 branches and require relevant personnel to carry out such review and approval independently.

Post-loan management. We maintain strict standards for post-loan management for consumer loans. We require both the client managers and post-loan management specialists to participate in the regular and *ad hoc* post-loan inspections. We have also designated risk management specialists at our head office and branches and sub-branches at all levels to monitor our business operations and the industry risk and market risk to which we are exposed. We also issue alerts for risks and issues identified in the course of risk monitoring and require relevant branches and sub-branches to take timely risk control measures.

Credit Risk Management for Micro Loans

We have established the Sannong Finance Department that carries out centralized management of our micro loans. We adopt a risk-adjusted pricing policy to ensure we charge a price that covers the underlying risks while taking into consideration various factors, such as the cost, risk and competition. We generally set a higher interest rate for micro loans than other loan products we offer. We take various credit risk management measures for micro loans covering the acceptance of loan applications, pre-loan investigations, review and approval of loan applications and post-loan management.

Pre-loan investigations. The pre-loan investigations for micro loan applications are generally conducted by two client managers, or, for certain eligible applications, by a single client manager. We require the investigators to visit the residence and business premises of the borrower, collect basic information of the borrower, information relating to the borrower's business operations and use of proceeds, and collect relevant photographic and video evidence. We also cross check key financial information of the borrower we obtain from other sources. The review officers are responsible for checking the compliance and completeness of the investigation results. They may make telephone calls, when necessary, to either the borrower or the guarantor, or both, to verify information about suspicious businesses. We use credit scorecards to evaluate the credit profile of the applicants for micro loans.

Credit review and approval. The authority to review and approve applications for micro loans are centralized at our tier-1 and tier-2 branches. To effectively control associated credit risks, we require applications for micro loans to be reviewed and approved at our tier-1 and tier-2 branches and require relevant personnel to carry out such review and approval independently. To address the problem of insufficient security for our Sannong Loans, while we primarily focus on the borrower's repayment ability in reviewing and approving applications for micro loans, we also seek to obtain credit enhancements to mitigate potential credit risk by collaborating with related government authorities and industry associations and by purchasing guarantee insurance.

Loan disbursement. The Accounting and Operation Department disburses the loans after confirming that all relevant criteria are fulfilled.

Post-loan Management. We maintain strict standards for the post-loan inspection for micro loans, which is carried out by both client managers and post-loan management specialists. Post-loan inspections for micro loans consist of initial inspections, regular inspections and *ad hoc* inspections. Our personal credit management system sends automatic reminders to our staff of credit business when post-loan inspections are required. In addition, we monitor on a real time basis associated industry and market risks at our head office and branches and sub-branches, and timely issue internal risk alerts to relevant branches and sub-branches requiring them to take risk control measures. Since 2008, we have revoked the authority of approving micro loans from certain branches and sub-branches with deteriorated asset quality or those that have experienced non-compliance incidents.

Collection and Assets Resolution. We send automatic text messages and make phone calls to the borrowers when micro loans are due. We adopt different methods in collecting micro loans depending on the number of days overdue and the causes of the late payment. We take various measures to recover non-performing micro loans, including demanding immediate payment, loan restructuring, disposal of collateral, and disposal of assets acquired in satisfaction of debt. We write off non-performing micro loans that we are not able to recover.

Credit Risk Management for Personal Business Loans

For personal business loans (loans for small and micro business owners and individual business households), we adopt credit risk management measures similar to those applicable to our corporate loans to small enterprises. See "— Credit Risk Management for Corporate Loans — Credit Risk Management for Corporate Loans to Small Enterprises."

Credit Risk Management for Credit Cards

We conduct our credit card business centrally through our Credit Card Center. The Credit Card Center formulates standardized credit extension strategies based on the risk management policies set out by our head office, and make timely adjustments as needed according to the macroeconomic trends and our business development strategies. We maintain different standards for different customer groups in terms of eligibility criteria, criteria for accepting and approving credit card applications, approval procedures, and credit limits. We have also established a credit card risk management system designed to prevent and monitor potential risks arising in applying for credit cards, reviewing and approving credit card applications, and after the issuance of credit cards by, among others, measuring credit risks through our credit card scoring system. Our credit card risk management system generally encompasses three phases, namely, pre-credit extension, credit extension process and post-credit extension. We have formulated and implemented policies and measures that cover the entire credit card management process, including credit card product management, customer eligibility criteria, credit approval, post-credit monitoring, and collection of overdue payment. We collect overdue credit card payments through text messaging, making phone calls, mailing demand notices, making in-person visits, initiating legal proceedings, and engaging third-party collection agencies.

Management of NPLs

We manage our NPLs through our credit-related business departments and the Assets Resolution Department. We seek to recover NPLs by various means, including demanding immediate repayment of the loans, disposal of the collateral, bringing lawsuits or arbitrations against the debtors, engaging third-party collection agencies, and restructuring and writing-off the loans. We formulate annual plans on disposing of NPLs based on the NPL control target set for the year as well as NPL data of the previous year. In this process, we also take into consideration various other factors, including our historical recovery ratio, provision of allowance, transfer ratio, as well as the operational conditions of the relevant branches.

Credit Risk Management for Treasury Business

The credit risks relating to our treasury business arise primarily from our interbank financing, investments in bonds and interbank negotiable certificates of deposit, interbank investments, and interbank bill rediscounting. We conduct our treasury business through our head office.

Credit Risk Management of Interbank Financing

Our bank-wide credit management requirements also apply to our interbank financing business. We maintain strict eligibility criteria for our interbank financing counterparties and apply credit extension and drawdown requirements to them in accordance with our rules on credit extension to financial institutions. These counterparties are also subject to specific credit limits we set for different types of interbank financing business. We may provide additional credit pursuant to our established credit and collateral management policies, or demand credit enhancements such as guarantee, pledge or collateral provided by third parties.

Credit Risk Management of Debt Securities and Negotiable Certificates of Deposit

We assign an aggregate credit limit to each financial institution and bond issuer we transact with or invest in. In addition, we set an exposure limit for each customer and make timely adjustments to reflect changes in its risk profile. We conduct due diligence on an issuer prior to investing in its securities. Our investment decisions are reviewed and approved in accordance with our tiered authorization system and carried out within the respective authorization limit of the relevant branches.

Credit Risk Management of Interbank Investments

From a prudent risk control viewpoint, we believe we are ultimately responsible for managing credit risk associated with the asset quality of our interbank investments, whether we invest with our own funds or proceeds raised from the wealth management products we offer. We manage the credit risk arising from the assets of our interbank investments in accordance with our bank-wide risk management policies. To further control credit risk arising from our interbank investments, we evaluate and select eligible counterparties with solid qualification and experience, good reputation, and sound performance track record.

Risk Management of Interbank Bill Rediscounting

Our interbank bill rediscounting business is exclusively conducted by our head office. We seek to enhance credit risk control for interbank bill rediscounting through implementing unified credit extension and maintaining a white list for qualified counterparties. We also seek to strengthen our end-to-end operational risk management through integrated business standards, business process monitoring and business approvals.

Information Systems for Credit Risk Management

For credit risk management of retail loans, we have introduced functional systems for personal loan management and credit card management. The personal loan management system has a variety of functions, including customer management, collateral management, risk alert management, risk classification, statements generation, information retrieval, and loan recovery management. The credit card management system enables us to conduct risk scoring throughout the cycle of our credit card business to support our business decision-making. For credit risk management of non-retail loans, we maintain a corporate loan management system comprising several modules, including customer management, customer rating, collateral management, credit limit management, loan management (including post-loan management and assets resolution), data retrieval and process management. In addition, we have launched a corporate loan risk management system that allows us to perform data analysis and issue risk alerts.

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. Interest rate risk is the risk of losses of our revenue or returns or reduction in our economic value arising from adverse changes in, among others, the interest rate level or the maturity profile. Exchange rate risk is the risk of losses arising from the mismatches of the currency denomination of our assets and liabilities, or from the exposure of our foreign exchange derivatives transactions due to changes in the exchange rates. 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.

The organizational structure of market risk management encompasses our front, middle and back offices. The Risk Management Department is responsible for formulating specific policies, rules, methods, standards, tools and processes for market risk management, establishing exposure limit management system, monitoring market risk, measuring market risk capital, and assessing our total market risk exposure based on the risk appetite adopted by the Board of Directors, the Board of Supervisors and the senior management. The Asset and Liability Department is responsible for managing interest rate risk and exchange rate risk in our banking book, managing our internal fund transfer pricing system, and managing the impact of fluctuations in the net interest income of our banking book.

Our market risk management practices consist of the identification, measuring, monitoring and control of market risk. We primarily employ foreign currency exposure analysis, 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.

Market Risk Management of Banking Book

Interest Rate Risk Management

Interest rate risk is our exposure to movements in the market interest rate or the statutory interest rate that may adversely affect our returns. The interest rate risk in our banking book arises primarily from the mismatch in the re-pricing dates or maturity dates of our interest rate-sensitive on- and off-balance sheet assets and liabilities. Maturity or re-pricing date mismatches may result in changes in our net interest income and economic value due to fluctuations in the prevailing interest rates.

We use re-pricing gap analysis to measure our exposure to potential interest rate changes. We manage interest rate risk in our banking book primarily through setting exposure limits, adjusting re-pricing term structure, and matching the maturity of our assets and liabilities.

Exchange Rate Risk Management

Exchange rate risk is our exposure to exchange rate fluctuations arising primarily from mismatch in the currency denomination of our on- and off-balance sheet assets and liabilities. We seek to maintain the adverse effects of exchange rate changes within a tolerable range by setting exposure limits and adjusting the currency mix of our assets and liabilities.

Market Risk Management of Trading Book

Market risk in our trading book arises primarily from fluctuations in the value of the financial instruments in our trading book due to changes in interest rates, exchange rates and commodity prices. We use techniques such as duration analysis, price value of basis point, stress test and scenario analysis to assess, measure, monitor and control market risk in our trading book. We use our information systems to monitor our trading activities and measure associated market risks through valuation, sensitivity analysis and exposure limit management, and prepare market risk analysis reports based on our systems. We conduct regular stress tests on bonds and other major treasury 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.

Information Systems for Market Risk Management

In respect of market risk management, our fund management system allows us to conduct exposure limit management, information retrieval and statistics processing. In respect of management of interest rate risk in our banking book, our fund management system enables us to perform re-pricing gap calculation, maturity mismatch analysis and measurement of interest rate risk, which effectively supports our asset-liability management.

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 when 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.

We manage liquidity risk primarily through monitoring the maturity of our assets and liabilities to ensure we have sufficient funds 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 and the Administrative Measures for the Liquidity Risk Management of Commercial Banks (Provisional), 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:

- integrating liquidity risk into our annual risk management policies and exposure limit system, and monitoring and reporting on the implementation of the exposure limit system on a quarterly basis;

- centralizing cash flow and position limit management and estimating our fund position on a real-time basis;

- convening regular joint meetings attended by departments relating to liquidity risk management to evaluate our overall liquidity position and formulate action plans;

- monitoring liquidity risk through a number of key indicators, including liquidity coverage ratio, liquidity ratio, surplus deposit reserve ratio, minimum requirement of high quality liquidity assets, and loan-to-deposit ratio;

- conducting regular liquidity stress tests to identify potential liquidity risk and formulate liquidity contingency plans, and conducting *ad hoc* stress tests when extreme events occur; and

- diversifying our asset portfolio and funding sources through expanding interbank deposits, negotiable certificates of deposit and credit asset securitization and exploring new funding sources.

Information Systems for Liquidity Risk Management

Our information systems for liquidity risk management enable us to: (i) measure liquidity risk level and monitor key indicators; (ii) apply models for premature deposit withdrawals; (iii) manage intra-day liquidity; (iv) monitor funding and liquidity reserves; (v) conduct stress tests; (vi) perform scenario analysis; and (vii) generate statements.

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.

We strictly follow the Guidelines on the Operational Risk Management of Commercial Banks promulgated by the CBRC and implement a strategy characterized by "centralized management and multi-level control" for operational risk management. While our Board of Directors is ultimately responsible for 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 consists of our head office, branches and sub-branches and our various business departments. The second line is our Risk Management Department and other risk management related departments. Led by our senior management, our Risk Management Department is responsible for formulating the policies and procedures for operational risk management, and reviewing and evaluating operational risk management by our branches and sub-branches at all levels. Our Legal and Compliance Department is responsible for building our internal control system, organizing bank-wide compliance inspections and prevention of non-compliance incidents, handling delegation of business decision-making authority, and managing our internal rules and procedures. The Audit Office serves as the third line of defense and is responsible for supervising the implementation of the operational risk management system and reporting to the Board of Directors on the effectiveness of this system.

In recent years, we have been committed to further improving our operational risk management practices through the following measures:

- We have identified major operational risks and risk control measures for our key business lines and various businesses we conduct through our branches and have, on this basis, developed policies and exposure limits for operational risks, and monitored the implementation of such exposure limits on an ongoing basis;

- We have built a dynamic mechanism that enables us to identify and monitor operational risks on an ongoing basis. For each of our business lines, the responsible business department shall collaborate with related risk management department in developing applicable operational risk indicators and regularly reporting on the risk profile of the business line as well as the implementation of risk control measures. The risk management department at each level is responsible for consolidating and analyzing these reports and reporting their findings to the senior management at the same level and the supervising branches (including our head office, as applicable) on a regular basis;

- We report operational risk events as part of our comprehensive risk reporting system. We require all business lines and our head office, branches and sub-branches to report on operational risk events that have occurred and their resolutions pursuant to established requirements as to the content, scope, routine and format of such reports; and

- We have taken timely remedial measures to resolve certain operational risk events after analyzing the underlying causes. These remedial measures include developing risk mitigation plans, determining accountability, formulating specific rectification measures, and establishing risk alerting systems. Our head office supervises the implementation of these measures by our branches and sub-branches at all levels to thoroughly screen and identify potential operational risk events of a similar nature.

With respect to our bill business, we strictly comply with applicable regulatory requirements and primarily engage in low-risk electronic bill business. We value the importance of routine screening for risk arising from our bill business and seek to monitor high-risk bills and the settlement of related payment through our commercial bill management system. We also conduct on-site and off-site examination for the timely identification and prevention of potential non-compliance incidents.

LEGAL AND COMPLIANCE RISK MANAGEMENT

Legal risk is the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement of legal rights of others or otherwise in connection with any contract or business activity in which we are involved. Compliance risk is the risk of being subject to legal sanctions, regulatory penalties and significant financial and reputational losses as a result of failure to comply with applicable laws, regulations and rules.

The Legal and Compliance Department of our head office is responsible for our overall legal and compliance risk management, as well as leading the implementation of our internal control system. It is also responsible for: (i) establishing a robust compliance management system; (ii) continually improving the compliance management system, and reviewing and evaluating the effectiveness of our internal rules and procedures on a regular basis; (iii) conducting timely compliance review of new products, services and internal rules and procedures as well as other legal documents and interpreting internal and external regulatory developments; (iv) issuing risk alerts in a timely manner; (v) advising on compliance matters based on our actual practices; and (vi) providing ongoing legal support for the development of new financial products or businesses.

Anti-money Laundering

In accordance with the PRC Anti-money Laundering Law and other laws and regulations, we have formulated PSBC Basic Rules of Anti-money Laundering* (中國郵政儲蓄銀行反洗錢工作基本規定) and have established a sound anti-money laundering system with specific working procedures. We have also clearly defined the duties and responsibilities of anti-money laundering of the Board of Directors, the Board of Supervisors, the senior management, the leading group of anti-money laundering, our various departments and our branches and sub-branches at all levels. Currently, the Legal and Compliance Department of our head office, together with an anti-money laundering office under its supervision, leads our bank-wide anti-money laundering efforts. We systematically conduct customer due diligence and collect customer information and transaction records in accordance with applicable laws and regulations. We have developed an indicator assessment system for evaluating the anti-money laundering risk we are exposed to. We also optimize our anti-money laundering system and improve the model for identifying suspicious transactions on a continuous basis in order to enhance our ability to report large-amount and suspicious transactions. We are committed to fulfilling our statutory anti-money laundering reporting obligations and cooperating with the regulatory and judicial authorities in conducting anti-money laundering investigations. We provide regular trainings for our staff to improve their anti-money laundering capabilities. We also organize activities annually to raise public awareness of anti-money laundering.

INFORMATION TECHNOLOGY RISK MANAGEMENT

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. The goals of our information technology risk management include: (i) establishing an information technology risk management system covering all facets of our use of information technology based on our comprehensive risk management framework with a clear division of responsibilities among our various departments; (ii) strengthening our ability to prevent information technology risks and enhancing our overall information technology risk management capabilities; and (iii) supporting our sound and steady operations through routine, streamlined and ongoing information technology risk management.

The primary measures we have taken for our information technology risk management include:

- formulating standardized fundamental policies for information technology risk management; establishing and continually improving our information technology risk management system; continually identifying, assessing, monitoring, mitigating and reporting on information technology risk;
- continually improving our ability to build and manage our data recovery system, mitigating the impact of emergencies on our core information systems;
- establishing an integrated system for managing risks arising from information technology outsourcing and enhancing value-added effect of outsourcing management;
- enhancing the organizational structure and allocation of duties for routine and emergency business continuity management, and establishing business continuity management systems and contingency plans in order to control the risk of business interruptions to minimize potential economic loss and reputational harm; and
- building a comprehensive information security system covering the rules, technologies, operations and organizational structure for our information security, and establishing a security management framework that covers the entire cycle of our information systems based on our actual needs to further support our information technology risk management efforts.

REPUTATIONAL RISK MANAGEMENT

Reputational risk is the risk of negative perception by stakeholders relating to our operation, management, or other actions that we take, as well as external events relating to us. We maintain reputational risk management policies, rules and procedures as well as the processes for identifying, monitoring, assessing and reporting reputational risks and resolving material reputational risk events under our comprehensive risk management framework. We have formed an emergency response leadership team at our head office to strengthen our communication with stakeholders, including relevant parties involved in reputational risk events and the press, in order to closely monitor and properly resolve reputational risk events.

INTERNAL AUDIT

We adopt a risk-oriented approach for our internal audit. Centered on our core operations and focusing on the fair reporting of our financial performance and investment returns, we carry out independent, objective internal audit to perform its supervisory, assessing and advisory functions and to build and enhance our internal control and rectification mechanisms. We seek to strengthen the role of our internal audit as the third line of defense in supervising the implementation of our strategic decisions and the management of major risks in order to support the Board of Directors, the Board of Supervisors and the senior management.

We have formed a vertical three-tier internal audit structure consisting of the Audit Office of our head office, the regional audit offices and the audit departments of our tier-1 branches. The Audit Office of our head office is accountable and shall report to the Board of Directors and shall, as required under the Guidances on the Corporate Governance, report to the Board of Supervisors and the member(s) of the senior management in charge of internal audit. It receives guidance from the Board of Supervisors and is supervised and evaluated by the Audit Committee under the Board of Directors and the senior management.

We have formulated our internal audit charters, standards and other related audit policies and procedures. These charters, standards, policies and procedures cover internal control and risk management of our various departments and components of our business process, with a particular focus on key businesses, process components and positions. The scope of our internal audit responsibilities primarily includes:

- conducting audits on the soundness and effectiveness of our corporate governance;
- conducting audits on the compliance and the effectiveness of our business management;
- conducting audits on the appropriateness and effectiveness of our internal control;
- conducting audits on the comprehensiveness and effectiveness of our risk management;
- conducting audits on the completeness and accuracy of our accounting records and financial statements;
- conducting audits on the continuity, reliability and security of our information systems;
- conducting audits on the operations of our branches and sub-branches, our performance evaluation, compensation management, as well as the performance of duties by our senior management;
- conducting relevant accountability audits within the scope of its authorization and duties; and
- conducting audits on the rectification of issues identified in the supervision and examination by the regulatory authorities and conducting audits on projects designated by the regulatory authorities.

INTERNAL CONTROL

The goal of our internal control is to ensure: (i) compliance of our operational and management activities with the laws and regulations; (ii) effective implementation of our various risk management measures and the effectiveness of our risk management efforts; and (iii) truthful, complete and timely record of our financial statements and other management information.

Our internal control measures primarily include:

- We have formulated fundamental internal control policies including PSBC Compliance Policy and PSBC Internal Control Basic Rules, and optimized our internal control organizational structure with a clear separation of internal control responsibilities among the Board of Directors, the Board of Supervisors and the senior management;

- We have established "three lines of defense" for internal control characterized by cooperation among the business departments, the legal and compliance departments, the risk management departments and the audit departments. The business departments are the first line of defense and are responsible for managing and supervising our business operations. The legal and compliance departments and the risk management departments are the second line of defense and are responsible for supervising and monitoring the operations of our branches and sub-branches and various business lines. The audit departments are the third line of defense and are responsible for independently conducting audit on the effectiveness of our business operations and risk management;

- We have established an internal control system covering our various lines of business and products with specific risk control measures for various lines of business;

- We maintain mechanisms for segregation of duties, position rotations and mandatory leave regime;

- We have established vertical and horizontal authorization mechanisms through which we conduct annual general authorization and special authorization;

- We have adopted disciplinary rules and procedures for employee misconduct with specific punishments to discipline our staff;

- We have developed research and development and risk evaluation mechanisms for new products and services;

- We maintain a centralized information system and have established an information system constraint mechanism that covers our various business and management activities; and

- We perform bank-wide, standardized business supervision and inspection, and formulate annual inspection plans that cover our core businesses and operations. For the three consecutive years from 2013 to 2015, we provided compliance training programs for our employees to raise their compliance awareness and to foster the implementation of our rules and procedures as part of our ongoing efforts to develop a culture of compliance and enhancing our comprehensive internal control capabilities.

As of the Latest Practicable Date, China Post Group directly held approximately 83.08% of our issued share capital and the MOF directly held 100% of the equity interest of China Post Group. China Post Group is our controlling shareholder under the Listing Rules. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, China Post Group will hold approximately 69.23% of our enlarged issued share capital (approximately 67.50% if the Over-allotment Option is fully exercised).

China Post Group is an enterprise owned by the whole people and was incorporated on October 4, 1995 under PRC law. As of the Latest Practicable Date, China Post Group had a registered capital of RMB108,821,490,000. As of the Latest Practicable Date, China Post Group indirectly held approximately 40.16% of the shares in Hunan Copote Science & Technology Co., Ltd., which is listed on the Shanghai Stock Exchange (stock code: 600476).

BUSINESS DELINEATION BETWEEN US AND CHINA POST GROUP

Our Businesses

We operate as an independent commercial bank. Our major business segments consist of personal banking, corporate banking and treasury business. Our businesses are mainly regulated by the CBRC.

We are the only commercial bank controlled by China Post Group.

Businesses of China Post Group

China Post Group is principally engaged in domestic and international mail delivery, distribution of publications such as newspapers, journals and books, stamp issuance, postal remittance, confidential correspondence, postal financial business, postal express delivery, postal logistics, e-commerce, postal agency and other businesses conducted in accordance with law.

Certain of the businesses conducted by China Post Group are similar to certain of our businesses, however such businesses do not have a material impact on us. Details of these businesses are set forth below:

Remittance Business

The postal remittance business conducted by China Post Group is one of the universal services that China Post Group is required to provide in accordance with the PRC Postal Law. Pursuant to the PRC Commercial Banking Law, commercial banks are allowed to provide domestic and foreign settlement services. Pursuant to the Measures for the Payment and Settlement* (支付結算辦法) of the PBOC, remittance is one of the settlement methods. The remittance business is also one of the basic financial services usually provided by commercial banks in the PRC. We also carry out remittance business. See “Business — Our Principal Business — Personal Banking Business — Products and Services — Fee- and Commission-based Products and Services — Personal Settlement Business” for details.

Collection Business

Postal offices of China Post Group may provide collection business, namely collection of utilities fees such as water, electricity and gas fees and collection of payments (e.g. petroleum payment). We also conduct collection business, which is one of our traditional businesses. See "Business — Our Principal Business — Personal Banking Business — Products and Services — Fee- and Commission-based Products and Services — Collection and Payment Agency Services" for details.

SMS Business

The 11185 platform for postal SMS business currently operated by China Post Group (the "11185 SMS Platform") provides customers of China Post Group and our savings account holders, with certain services, such as remittance SMS, express delivery SMS, stamp collecting SMS, marketing multimedia messaging service and notification on changes in savings accounts. Currently, notification on changes in savings accounts are sent from the 11185 SMS Platform of China Post Group, while our 95580 SMS Platform mainly provides services such as transaction verification and transaction notification. It is expected that the transfer of business of notification on changes in savings accounts from the 11185 SMS Platform to our 95580 SMS Platform will be completed by the end of 2016.

For the year ended December 31, 2015 and the three months ended March 31, 2016, our net fee and commission income generated from each of remittance business, collection business and SMS business accounted for no more than 0.35% of our operating income. Accordingly, we believe that there is no material competition between China Post Group and us in respect of the remittance, collection and SMS businesses.

Relevant Interests Held by China Post Group

China Post Group also conducts financial businesses through its controlled enterprises other than us, which include insurance, securities, investment and asset management businesses. There is no material competition between these enterprises and us. As of the Latest Practicable Date, details of such enterprises are set out as below:

Name of Company	Percentage of Equity Interest Held by China Post Group (as of the Latest Practicable Date)	Business
China Post Life Insurance Company Limited* (中郵人壽保險股份有限公司)	100%	Principally engages in life insurance, health insurance and accident insurance and other life insurance businesses; reinsurance of the aforesaid businesses; use of insurance funds as approved by laws and regulations in the PRC; other businesses approved by the CIRC
China Post Securities Company Limited* (中郵證券有限責任公司)	90.54%	Principally engages in securities brokerage, securities investment advisory, sale of securities investment fund, margin finance and securities lending, agency sale of financial products, asset management, securities underwriting, proprietary trading and financial advisory regarding securities dealing and securities investments activities and other businesses
China Post Capital Management Limited	100%	Principally engages in businesses including asset management, project investment, investment management, investment advisory and enterprise management and other businesses
Beijing China Post Asset Management Co., Ltd.	100%	Principally engages in capital market investment businesses including investment management, asset management, real estate investment operations, equity investment, debt investment and quantitative investment

Name of Company	Percentage of Equity Interest Held by China Post Group (as of the Latest Practicable Date)	Business
Beijing China Post Hongxin Investment Management Limited* (北京中郵鴻信投資管理有限公司)	100%	Investment management and asset management
China Post Xintong Industrial Investment Co., Ltd.* (中郵信通實業投資有限公司)	100%	Principally engages in industrial investment management; hotel investment management; development and services of postal technology; sale and maintenance of communication equipment; office automation, computer development as well as application and sale, maintenance and leasing of office equipment; sale of postal equipment and products, construction materials, hardware, electric material and chemical products (excluding hazardous chemicals), plumbing and heating equipment, general merchandise and apparels; postal and related business advisory; sale of postal vehicles; property leasing as well as import and export business
Shanxi Postal Insurance Agency Co., Ltd.* (1) (山西省郵政保險代理有限公司)	100%	Principally engages in agency sale of insurance products, agency collection of premium and other businesses as approved by the CIRC
Inner Mongolia Postal Insurance Agency Co., Ltd.*(2) (內蒙古郵政保險代理有限責任公司)	100%	Principally engages in agency sale of insurance products in the Inner Mongolia Autonomous Region
Henan Postal Insurance Agency Co., Ltd.* (河南省郵政保險代理有限公司)	100%	Principally engages in agency sale of insurance products, agency collection of premium and other businesses as approved by the CIRC
Hubei Tianhong Insurance Agency Co., Ltd.* (湖北天鴻保險代理有限公司)	100%	Principally engages in agency sale of insurance products and agency collection of premium in Hubei Province

Name of Company	Percentage of Equity Interest Held by China Post Group (as of the Latest Practicable Date)	Business
Sichuan Postal Insurance Agency Co., Ltd.* (四川郵政保險代理有限公司)	100%	Principally engages in agency sale of insurance products, agency collection of premium and other businesses
Yunnan Postal Insurance Agency Co., Ltd.* (雲南郵政保險代理有限公司)	100%	Principally engages in agency sale of insurance products and agency collection of premium
Hunan Postal Insurance Agency Co., Ltd.* (湖南郵政保險代理有限公司)	99.625%	Principally engages in agency sale of insurance products, agency collection of premium and other businesses approved by the CIRC in Hunan Province

(1) Shanxi Postal Insurance Agency Co., Ltd. has not conducted any operations since 2010.

(2) Inner Mongolia Postal Insurance Agency Co., Ltd. does not conduct any business currently.

Asset Management Business

The asset management businesses operated by China Post Securities Company Limited, China Post Capital Management Limited, Beijing China Post Asset Management Co., Ltd. and Beijing China Post Hongxin Investment Management Limited under China Post Group are different from the asset management business of our Bank.

- the asset management business of our Bank as a commercial bank, is primarily regulated by the CBRC. The asset management business of China Post Securities Company Limited as a securities company, is primarily regulated by the CSRC. China Post Capital Management Limited, Beijing China Post Asset Management Co., Ltd. and Beijing China Post Hongxin Investment Management Limited engage in asset management business in the capacity of private equity fund managers, and they are subject to self-regulation by the Asset Management Association of China; and

- the asset management business of our Bank involves commercial bank wealth management products, while other companies under China Post Group mentioned above are not permitted to engage in such business. The asset management business of China Post Securities Company Limited comprises the businesses of targeted asset management, collective asset management and specified asset management, whereas the asset management business operated by China Post Capital Management Limited, Beijing China

Post Asset Management Co., Ltd. and Beijing China Post Hongxin Investment Management Limited is private equity fund management business. Our Bank currently is not permitted to engage in the asset management businesses that the other companies under China Post Group mentioned above currently engage in.

For the year ended December 31, 2015 and for the three months ended March 31, 2016, our income generated from the asset management business accounted for no more than 1.72% of our operating income.

Based on the above reasons, we are of the view that there is no material competition between the asset management businesses operated by China Post Securities Company Limited, China Post Capital Management Limited, Beijing China Post Asset Management Co., Ltd. and Beijing China Post Hongxin Investment Management Limited and our asset management business.

Securities Underwriting Business

Notwithstanding China Post Securities Company Limited under China Post Group also engages in securities underwriting business, it is different from the relevant business operated by our Bank.

- the securities underwriting business of China Post Securities Company Limited, as a securities company, is primarily regulated by the CSRC, whereas the relevant business of our Bank, as a commercial bank, is primarily regulated by the CBRC; and

- the securities which China Post Securities Company Limited are licensed to underwrite are primarily corporate bonds and enterprise bonds issued and traded on exchanges as well as equity securities, whreas the securities which our Bank are licensed to underwrite are primarily government bonds and non-financial enterprise debt financing instruments issued and traded on the interbank bond market.

For the year ended December 31, 2015 and for the three months ended March 31, 2016, our income generated from the above-mentioned underwriting business accounted for no more than 0.08% of our operating income.

Based on the above reasons, we are of the view that there is no material competition between the securities underwriting business of China Post Securities Company Limited and the relevant business of our Bank.

Based on the above, under the relevant laws and regulations in the PRC, the securities, commercial banking and insurance industries are subject to different regulatory regimes. The enterprises controlled by China Post Group which carry out businesses such as insurance and securities underwriting are subject to the regulation of different regulatory authorities, operate independently from each other and are restricted by laws and regulations from engaging in commercial banking businesses. We are the only commercial bank controlled by China Post Group and apart from us, China Post Group does not directly or indirectly control any other commercial banks in the PRC. Save for the license held by us, China Post Group has no license for conducting commercial banking business in the PRC. Meanwhile, we also have no licenses for insurance, securities underwriting or other financial businesses held by relevant companies in which China Post Group holds interests. Accordingly, we believe that currently there is no material competition between the businesses operated by China Post Group and companies that it controls (excluding us) and the commercial banking business operated by us.

INDEPENDENCE FROM CHINA POST GROUP

We believe that after the Global Offering, we are able to operate independently of China Post Group and its close associates.

Management Independence

Mr. Li Guohua, our Chairman, Mr. Lyu Jiajin, our executive Director and president, Ms. Yao Hong, our executive Director and vice president, and Mr. Xu Xueming, our vice president, secretary to the Board and joint company secretary, will continue to hold directorships and/or senior management positions in our Controlling Shareholder and/or its close associates after the Listing. Set out below is a table summarizing the directorships and/or senior management positions held by the aforementioned Directors or senior management in our Controlling Shareholder and/or its close associates as of the Latest Practicable Date:

Name of Director/Senior Management	Positions in our Bank	Directorships and/or Senior Management Positions in our Controlling Shareholder and/or its Close Associates Other Than Us
Li Guohua	Chairman/non-executive Director	President of China Post Group
Lyu Jiajin	Executive Director/president	Deputy president of China Post Group
Yao Hong	Executive Director/vice president	Director of China Post Life Insurance Company Limited
Xu Xueming	Vice president/secretary to the Board/joint company secretary	Director of China Post Securities Company Limited

Notwithstanding the above, we believe that the Board, as a whole, together with our senior management team, is able to perform the managerial roles in us independently for the following reasons:

(a) Mr. Li Guohua, our Chairman, one of our non-executive Directors, does not participate in our daily management and is primarily responsible for presiding over the Board and performing his duties as the chairman of the Strategic Planning Committee under the Board;

(b) our daily operations are managed by our executive Directors, namely, Mr. Lyu Jiajin, Mr. Zhang Xuewen and Ms. Yao Hong, together with other members of our senior management team, namely, Mr. Qu Jiawen, Mr. Xu Xueming and Mr. Shao Zhibao. As a deputy president of China Post Group, Mr. Lyu Jiajin is primarily responsible for overseeing the operation and development of our Bank and is not involved in the daily operation of China Post Group. Mr. Lyu Jiajin devotes substantially all his time to discharge his duties of his positions at our Bank. In addition, although Ms. Yao Hong and Mr. Xu Xueming serve as directors of China Post Life Insurance Company Limited and China Post Securities Company Limited, respectively, their roles in such companies are non-executive in nature and neither of them participates in the daily operations of China Post Life Insurance Company Limited and China Post Securities Company Limited. Save as disclosed above, none of our Directors or senior management holds any directorship and/or senior management position in China Post Group and/or its close associates;

(c) none of our Directors or members of our senior management holds any interests in China Post Group;

(d) in order to achieve a balanced composition between the interested Directors and the independent non-executive Directors, we have appointed four independent non-executive Directors (representing one-third of the Board);

(e) each of our Directors is aware of and understands his/her fiduciary duties as a Director which requires, among other things, that he/she must act for the benefit and in the best interests of our Bank and not allow any conflict between his/her duties as a Director and his/her personal interests. Where there is potential conflict of interest arising out of any transaction to be entered into between us and our Directors or their respective associates, the Director(s) with a material interest specified under the Articles of Association shall abstain from voting at our relevant Board meetings in respect of such transaction and shall not be counted in the quorum; and

(f) our senior management team makes independent business decisions. Our independent non-executive Directors also bring independent judgment to the decision-making process of the Board and are entitled to engage advisors or professionals to advise them in this regard.

Based on the above, our Directors believe that the Board as a whole, together with our senior management team, is able to perform the managerial roles in our Bank independently.

Operational Independence

(a) we have obtained relevant requisite qualifications and approvals for conducting commercial banking business in the PRC. We currently conduct banking business independently, with the autonomous right to formulate and implement operational decisions. We have sufficient funding, facilities and employees to operate our business independently of China Post Group;

(b) we have our own organizational structure with independent departments and clear terms of reference. We also maintain a comprehensive internal control system to facilitate the effective operation of our business. We have adopted a set of corporate governance procedures in accordance with relevant laws, regulations and rules, including the rules of procedures for Shareholder's general meetings, Board meetings and the Board of Supervisors' meetings. The internal control, risk management and other key policies of all outlets (including agency outlets) are formulated and monitored by us;

(c) we have entered into the Trademark Licensing Agreement with China Post Group. For details, see "Connected Transactions — Exempt Continuing Connected Transactions — Trademark Licensing." We did not pay any consideration for the license of the trademarks during the Track Record Period. We believe that the relevant terms of the Trademark Licensing Agreement are normal commercial terms (or commercial terms that are better to us), and in the interests of the Shareholders as a whole;

(d) we have entered into the Land Use Rights and Properties Leasing Framework Agreement with China Post Group, pursuant to which we and China Post Group and/or its associates lease the assets such as land use right, properties and ancillary equipment to each other. For details, see "Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review and Announcement Requirements — Land Use Rights and Properties Leasing." Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has confirmed that the rentals under the Land Use Right and Property Rental Framework Agreement are fair, reasonable and consistent with the prevailing market rentals of similar assets;

(e) we have entered into the Comprehensive Services Framework Agreement with China Post Group, pursuant to which China Post Group and/or its associates and we may provide services or goods to each other. See "Connected Transactions — Exempt Continuing Connected Transactions — Comprehensive Services" and "Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review and Announcement Requirements — Comprehensive Services" for details. The provision of services and goods between China Post Group and/or its associates and us is negotiated on arm's length basis and conducted on fair terms; and

(f) we have entered into the Agency Banking Businesses Framework Agreement with China Post Group, pursuant to which agency outlets as entrusted by our Bank can act on our behalf to provide part of our banking businesses. See "Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements — Agency Banking Businesses" for details. The transactions under the Agency Banking Businesses Framework Agreement between us and China Post Group are conducted on the unique model of directly-operated outlets and agency outlets. According to the requirements under Administrative Measures on Agency Outlets Institutions, China Post Group cannot conduct relevant commercial banking business that is not entrusted by us. China Post Group must conduct relevant commercial banking business entrusted by us through establishing our agency outlets, and conducting business under our name. We cannot entrust relevant commercial banking business to enterprises or individuals other than agency outlets without the approval of the banking regulatory authorities. Agency outlets shall obtain a Financial Business Operation Permit with the approval of the banking regulatory authorities and constitute part of our service network.

Based on the above reasons, our Directors are of the view that we are able to operate independently of China Post Group.

Financial Independence

As of the Latest Practicable Date, there was no outstanding loan granted by China Post Group or any of its close associates to us and there was no guarantee provided for our benefit by China Post Group or any of its close associates. We have adequate internal resources to support our daily operations.

We have established an independent finance department with a team of independent financial staff, as well as a sound and independent audit system, a standardized financial and accounting system and a comprehensive financial management system. We can make financial decisions independently. We make tax filings and pay taxes independently of China Post Group pursuant to applicable laws and regulations. Therefore, we are financially independent of China Post Group.

NON-COMPETE UNDERTAKINGS OF CHINA POST GROUP

In order to avoid potential competition, China Post Group has provided a non-compete undertaking ("Non-compete Undertaking") in favor of our Bank on September 7, 2016:

China Post Group has undertaken that it will not engage in any competing commercial banking business within or outside the PRC. If China Post Group: (1) conducts competing commercial banking business within or outside the PRC; (2) obtains any governmental approval, authorization or license to operate competing commercial banking business; or (3) obtains other opportunities to operate competing commercial banking business, China Post Group will implement effective measures promptly in order to avoid engaging in such competing commercial banking business.

The aforesaid undertakings do not apply to the following circumstances: (1) holding equity interests or other securities issued by our Bank and our subsidiaries from time to time; (2) holding shares or other securities of any commercial bank, provided that: the aggregate interests held by China Post Group and/or its associates (as defined in the Listing Rules) do not exceed 10% of the issued share capital of any such companies; and China Post Group and/or its associates do not control the board of directors of such companies; or (3) investing in or holding shares or other securities of any commercial bank for the satisfaction of the requirements of relevant laws and regulations or the requirements of relevant national departments and regulatory authorities in the PRC.

China Post Group understands that we are entitled to rely on the confirmations and undertakings made in the Non-compete Undertaking. China Post Group has undertaken that if China Post Group subsequently becomes aware of any information that would cast doubt on truthfulness, accuracy and completeness of any information provided in the Non-compete Undertaking, China Post Group will promptly give written notice of such information to us.

The Non-compete Undertaking becomes effective from the Listing Date until the occurrence of the following events (whichever is earlier): (a) the Shares held by China Post Group and/or China Post Group through its any associates are lower than 30%, or (b) our Shares cease to be listed on Hong Kong Stock Exchange and any other stock exchanges.

CORPORATE GOVERNANCE MEASURES

We will adopt the following corporate governance measures to manage any potential conflict of interest arising from any future potential competing business of our Controlling Shareholder and safeguard the Shareholders' interests:

(a) our Directors will comply with the Articles of Association which specify that Directors who have a material interest in the matters to be considered at the relevant Board meeting shall not be present when the Board considers such matters and shall abstain from voting or be authorized to exercise the voting rights of other Directors, and shall not be counted in the quorum in respect of the relevant resolution(s) at such Board meetings; and

(b) we will comply with the relevant applicable rules under Chapter 14A of the Listing Rules in respect of our proposed connected transactions. For further details of the corporate governance measures adopted for certain of our continuing connected transactions, see "Connected Transactions."

Pursuant to Chapter 14A of the Listing Rules, the transactions that we enter with our connected persons will constitute connected transactions for us upon the Listing.

SUMMARY OF OUR CONNECTED PERSONS

We have entered into certain transactions which will constitute continuing connected transactions following the Listing with the following connected persons:

- China Post Group: As of the Latest Practicable Date, China Post Group was the controlling shareholder of our Bank, holding approximately 83.08% of the total issued share capital of our Bank, and will hold approximately 69.23% of the total issued share capital of our Bank immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised); and

- certain associates of China Post Group excluding our Bank: such associates will be connected persons of our Bank under Rule 14A.07(4) of the Listing Rules.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

				Proposed annual cap for the year ending December 31,		
	Transactions	Applicable Listing Rules	Waiver sought	2016	2017	2018
	Exempt continuing connected transactions			(in millions of RMB)		
A.	Provision of commercial banking services and products in the ordinary and usual course of business — provision of loans and credit facilities to connected persons	Rule 14A.87(1)	N/A	N/A	N/A	N/A
B.	Provision of commercial banking services and products in the ordinary and usual course of business — taking deposits from connected persons	Rule 14A.90	N/A	N/A	N/A	N/A

	Transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31, 2016	2017	2018
	Exempt continuing connected transactions			(in millions of RMB)		
C.	Provision of commercial banking services and products in the ordinary and usual course of business — provision of other banking services and products to connected persons	Rule 14A.76(1)	N/A	N/A	N/A	N/A
D.	Trademark licensing	Rule 14A.76(1)	N/A	N/A	N/A	N/A
E.	Sales of philatelic items and provision of mailing services by China Post Group and/or its associates to us	Rule 14A.97	N/A	N/A	N/A	N/A
F.	Sales of goods other than philatelic items by China Post Group and/or its associates to us	Rule 14A.76(1)	N/A	N/A	N/A	N/A
G.	Sales of business supplies and other goods by us to China Post Group and/or its associates	Rule 14A.76(1)	N/A	N/A	N/A	N/A
H.	Provision of bancassurance services by us to China Post Group and/or its associates	Rule 14A.76(1)	N/A	N/A	N/A	N/A
I.	Provision of entrusted asset management services by China Post Group and/or its associates to us	Rule 14A.76(1)	N/A	N/A	N/A	N/A
J.	Provision of labor services by us to China Post Group and/or its associates	Rule 14A.76(1)	N/A	N/A	N/A	N/A

	Transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31, 2016	2017	2018
	Exempt continuing connected transactions			(in millions of RMB)		
K.	Provision of custodian services by us to China Post Group and/or its associates	Rule 14A.76(1)	N/A	N/A	N/A	N/A
L.	Provision of integrated business operation services by us to China Post Group and/or its associates	Rule 14A.98	N/A	N/A	N/A	N/A

	Transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31, 2016	2017	2018
	Non-exempt continuing connected transactions			(in million of RMB)		
M.	Leasing of certain properties and ancillary equipment by us to China Post Group and/or its associates	Rule 14A.35, Rule 14A.76(2) and Rule 14A.105	Announcement requirement	170	181	194
N.	Leasing of certain properties and ancillary equipment by China Post Group and/or its associates to us	Rule 14A.35, Rule 14A.76(2) and Rule 14A.105	Announcement requirement	1,124	1,171	1,223
O.	Provision of marketing services of deposits and other businesses by China Post Group and/or its associates to us	Rule 14A.35, Rule 14A.76(2) and Rule 14A.105	Announcement requirement	522	601	691
P.	Provision of labor services by China Post Group and/or its associates to us	Rule 14A.35, Rule 14A.76(2) and Rule 14A.105	Announcement requirement	773	867	972

	Transactions	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31, 2016	2017	2018
	Non-exempt continuing connected transactions			(in million of RMB)		
Q.	Agency banking businesses of agency outlets	Rule 14A.35, Rule 14A.52, Rule 14A.53(1) and Rule 14A.105	Announcement requirement, term of the agreement, annual caps and approval by independent shareholders	N/A	N/A	N/A

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Provision of Commercial Banking Services and Products in the Ordinary and Usual Course of Business

(A) Provision of Commercial Banking Services and Products in the Ordinary and Usual Course of Business — Provision of Loans and Credit Facilities to Connected Persons

We extend loans and credit facilities in the ordinary and usual course of business to certain of our connected persons on normal commercial terms (or terms that are better to us) with reference to prevailing market interest rates. We expect that we will continue to provide loans and credit facilities to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The above loans and credit facilities provided by us to our connected persons are in the ordinary and usual course of business and on normal commercial terms (or terms that are better to us) with reference to prevailing market interest rates. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.87(1) of the Listing Rules, namely financial assistance provided by us in the ordinary and usual course of business to connected persons on normal commercial terms or terms that are better to us, and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(B) Provision of Commercial Banking Services and Products in the Ordinary and Usual Course of Business — Taking Deposits from Connected Persons

We take deposits in the ordinary and usual course of business from certain of our connected persons at prevailing market interest rates and on normal commercial terms (or terms that are better to us). We expect that our connected persons will continue to place deposits with us following the

Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The deposits placed by our connected persons in the ordinary and usual course of business are on normal commercial terms (or terms that are better to us) with reference to prevailing market interest rates. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.90 of the Listing Rules, namely financial assistance received by us from connected persons in the form of deposits on normal commercial terms (or terms that are better to us) and not secured by our assets, and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(C) Provision of Commercial Banking Services and Products in the Ordinary and Usual Course of Business — Provision of Other Banking Services and Products to Connected Persons

We provide various commercial banking services and products to certain of our connected persons on normal commercial terms (or terms that are better to us) at normal service fees and charges in the ordinary and usual course of business. We expect that we will continue to provide such banking services and products to our connected persons following the Listing, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Trademark Licensing

(D) Trademark Licensing

On September 5, 2016, we and China Post Group entered into a trademark licensing agreement (the "Trademark Licensing Agreement"). The Trademark Licensing Agreement is for a term of 20 years commencing from the date of execution and will be automatically renewed upon its expiry for another 20 years if neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed. Pursuant to the Trademark Licensing Agreement, China Post Group agreed to license us to use trademarks that China Post Group has registered or is registering in China and/or Hong Kong including and 中国邮政 CHINA POST on a non-exclusive basis at nil consideration. For further information about the trademarks, see "Appendix VII — Statutory and General Information — Intellectual Property Rights — Trademarks." We did not pay any consideration for the license of the aforesaid trademarks during the Track Record Period. China Post Group undertook to us that it would maintain the valid title and registration for the relevant trademarks during the term of the Trademark Licensing Agreement.

As we are not required to pay any consideration under the Trademark Licensing Agreement which is on normal commercial terms (or terms that are better to us), pursuant to Rule 14A.76(1) of the Listing Rules, the transactions contemplated under the Trademark Licensing Agreement will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Comprehensive Services

On September 6, 2016, we and China Post Group entered into a comprehensive services framework agreement (the "Comprehensive Services Framework Agreement").

Principal Terms

The Comprehensive Services Framework Agreement shall become effective from the Listing Date and expire on December 31, 2018. If neither party to the agreement raises any objection and subject to the regulatory requirements in the place where our Shares are listed, the Comprehensive Services Framework Agreement will be automatically renewed for a further term of three years upon expiry.

The services provided by China Post Group and/or its associates to us which constitute fully exempt continuing connected transactions include:

- Sales of philatelic items and provision of mailing services, see "— *(E) Sales of philatelic items and provision of mailing services by China Post Group and/or its associates to us*";
- Sales of goods other than philatelic items, see "— *(F) Sales of goods other than philatelic items by China Post Group and/or its associates to us*"; and
- Provision of entrusted asset management services, see "— *(I) Provision of entrusted asset management services by China Post Group and/or its associates to us*."

The services provided by us to China Post Group and/or its associates which constitute fully exempt continuing connected transactions include:

- Sales of business supplies and other goods, see "— *(G) Sales of business supplies and other goods by us to China Post Group and/or its associates*";
- Provision of bancassurance services, see "— *(H) Provision of bancassurance services by us to China Post Group and/or its associates*";
- Provision of labor services, see "— *(J) Provision of labor services by us to China Post Group and/or its associates*";
- Provision of custodian services, see "— *(K) Provision of custodian services by us to China Post Group and/or its associates*"; and

- Provision of integrated business operation services, see "— *(L) Provision of integrated business operation services by us to China Post Group and/or its associates.*"

(E) Sales of Philatelic Items and Provision of Mailing Services by China Post Group and/or its Associates to us

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates sell philatelic items and provide mailing services to us.

Reasons for the Transactions

We purchase philatelic items including stamp albums from China Post Group and/or its associates for marketing in the ordinary and usual course of business. Meanwhile, we have also been using the mailing services provided by China Post Group and/or its associates in the ordinary and usual course of business. We expect that we will continue to purchase philatelic items and use mailing services from China Post Group and/or its associates following the Listing.

Pricing Policies

We purchase philatelic items from China Post Group and/or its associates or use their mailing services (1) on terms same as or better than those on which independent third party consumers purchase such philatelic items and/or obtains such mailing services from China Post Group and/or its associates in the open market, and (2) for our own use or consumption rather than for resale.

The purchase of philatelic items or use of mailing services of China Post Group and/or its associates by us are goods or services generally supplied for self-use or consumption under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.97 of the Listing Rules, these transactions are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(F) Sales of Goods Other than Philatelic Items by China Post Group and/or its Associates to us

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates sell certain other goods to us.

Reasons for the Transactions

We purchase goods other than philatelic items from China Post Group and/or its associates in the ordinary and usual course of business, mainly including promotional items and other banking related supplies. We expect that we will continue to purchase such goods from China Post Group and/or its associates following the Listing.

Pricing Policies

We purchase certain goods other than philatelic items from China Post Group and/or its associates on the same terms as those on which independent third parties purchase such goods in the open market.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(G) Sales of Business Supplies and Other Goods by us to China Post Group and/or its Associates

Pursuant to the Comprehensive Services Framework Agreement, we sell business supplies and other goods to China Post Group and/or its associates.

Reasons for the Transactions

We sell business supplies and other goods to China Post Group and/or its associates in the ordinary and usual course of business, such as printing materials including business slips used in the ordinary and usual course of business. We expect that we will continue to sell such goods to China Post Group and/or its associates following the Listing.

Pricing Policies

We sell business supplies and other goods to China Post Group and/or its associates based on arm's length negotiation with reference to the prevailing market price.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(H) Provision of Bancassurance Services by us to China Post Group and/or its Associates

Pursuant to the Comprehensive Services Framework Agreement, we provide bancassurance services to China Post Group and/or its associates.

Reasons for the Transactions

We provide bancassurance services to China Post Group and/or its associates in the ordinary and usual course of business. We sell certain insurance products of China Post Group and/or its associates leveraging on our nationwide network as an agent and charge fees. We expect that we will continue to provide bancassurance services to China Post Group and/or its associates following the Listing.

Pricing Policies

We provide bancassurance services to China Post Group and/or its associates on the same terms as those on which we provide similar services to independent third parties.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(I) Provision of Entrusted Asset Management Services by China Post Group and/or its Associates to us

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide entrusted asset management services to us.

Reasons for the Transactions

China Post Group and/or its associates provide entrusted asset management services to us in the ordinary and usual course of business. In light of our stable relationship with China Post Group, we believe China Post Group and/or its associates are more familiar with our requirements for entrusted asset management services than independent third parties. We expect that we will continue to use the entrusted asset management services provided by China Post Group and/or its associates following the Listing.

Pricing Policies

Provision of entrusted asset management services by China Post Group and/or its associates to us is determined based upon arm's length negotiation with reference to the prevailing market price.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(J) Provision of Labor Services by us to China Post Group and/or its Associates

Pursuant to the Comprehensive Services Framework Agreement, we provide various banking related labor services to China Post Group and/or its associates.

Reasons for the Transactions

We provide various banking related labor services such as cash storage services, banknote counting services and equipment maintenance services to China Post Group and/or its associates in the ordinary and usual course of business. Certain services are procured by us from independent third parties for use by China Post Group and/or its associates and us to leverage on stronger bargaining power resulting from bulk purchase.

Pricing Policies

- In respect of the cash storage services and banknote counting services provided by independent third parties engaged by us, we and China Post Group and/or its associates share the relevant expenses in proportion to the respective number of outlets using such services.

- In respect of the cash storage services and banknote counting services provided by us, we and China Post Group and/or its associates determine the price with reference to the prevailing market price. In the absence of such market price, we and China Post Group and/or its associates share the relevant costs of the cash storage services and banknote counting services in proportion to the respective number of outlets using such services.

- In respect of the equipment maintenance services provided by independent third parties engaged by us, we and China Post Group and/or its associates share the relevant expenses in proportion to the respective number of outlets or personnel using such services.

- In respect of the equipment maintenance services provided by us, we and China Post Group and/or its associates share the relevant costs in proportion to the respective number of outlets using such services.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(K) Provision of Custodian Services by us to China Post Group and/or its Associates

Pursuant to the Comprehensive Services Framework Agreement, we provide custodian services to China Post Group and/or its associates.

Reasons for the Transactions

We provide custodian services to China Post Group and/or its associates in the ordinary and usual course of business. We expect that we will continue to provide custodian services to China Post Group and/or its associates following the Listing.

Pricing Policies

We provide custodian services to China Post Group and/or its associates on the same terms as those on which we provide similar services to independent third parties.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will not exceed 0.1%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(L) Provision of Integrated Business Operation Services by us to China Post Group and/or its Associates

Pursuant to the Comprehensive Services Framework Agreement, we provide integrated business operation services to China Post Group and/or its associates.

Reasons for the Transactions

We provide integrated business operation services including business centralized authorization to China Post Group and/or its associates in the ordinary and usual course of business to enhance the management of our agency banking businesses and ensure the effectiveness of the internal audit function.

Pricing Policies

We and China Post Group and/or its associates constitutes share the relevant costs in proportion to the respective number of transactions using the integrated business operation services.

The provision of integrated business operation services by us to China Post Group and/or its associates constitutes sharing of administrative services on cost basis, and the costs are identifiable and allocated between us and China Post Group and/or its associates on a fair and equitable basis. Pursuant to Rule 14A.98 of the Listing Rules, the relevant transactions will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions Subject to Reporting, Annual Review and Announcement Requirements

Upon the Listing, the following transactions will constitute continuing connected transactions and shall be subject to reporting, annual review and announcement requirements but will be exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

Land Use Rights and Properties Leasing

On September 2, 2016, we and China Post Group entered into a land use rights and properties leasing framework agreement (the "Land Use Rights and Properties Leasing Framework Agreement"), pursuant to which we and China Post Group and/or its associates lease certain of each other's properties and ancillary equipment.

Principal Terms

The Land Use Rights and Properties Leasing Framework Agreement shall become effective from the Listing Date and expire on December 31, 2018. The Land Use Rights and Properties Leasing Framework Agreement shall be automatically renewed for a further term of three years upon expiry if neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed.

(M) Leasing of Certain Properties and Ancillary Equipment by us to China Post Group and/or its Associates

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement, we have agreed to lease certain of our land use rights, properties and ancillary equipment to China Post Group and/or its associates.

The table below sets out the summary of the historical amounts and annual caps of the properties and ancillary equipment leased by us to China Post Group and/or its associates:

	Historical amounts				Annual caps		
	For the year ended December 31,			For the three months ended March 31,	For the year ending December 31,		
	2013	2014	2015	2016	2016	2017	2018
	(in millions of RMB)						
Leasing of certain properties and ancillary equipment by us to China Post Group and/or its associates	61	68	102	29	170	181	194

Reasons for the Transactions

China Post Group and/or its associates lease certain of our properties and ancillary equipment for their outlets or office purposes, and we expect that we will continue to lease such assets to China Post Group and/or its associates following the Listing.

Pricing Policies

The rental rates under the Land Use Rights and Properties Leasing Framework Agreement shall be determined with reference to the prevailing market rates, which is the rates for the leasing of similar assets by independent third parties in the same or adjacent area on normal commercial terms.

Historical Amounts and Basis of Annual Caps

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the aggregate amount of the properties and ancillary equipment leased by us to China Post Group and/or its associates was RMB61 million, RMB68 million, RMB102 million and RMB29 million, respectively. The aggregate amount of properties and ancillary equipment leased by us to China Post Group and/or its associates increased significantly from 2014 to 2015 reflecting the market rental rates.

For the years ending December 31, 2016, 2017 and 2018, the relevant annual caps are expected to be RMB170 million, RMB181 million and RMB194 million, respectively. When estimating the annual caps of the rental payments, our Directors have taken into consideration the aforesaid historical amounts, in particular the maximum transaction amounts in the past three years and the first quarter of 2016, and also, among other things, the following key factors:

- increase in rental rates in line with prevailing market rental rates upon renewal of certain existing leases;
- expected market rental rates of such properties and ancillary equipment; and
- expected total gross floor area of the properties to be leased by us to China Post Group and/or its associates as well as expected use of relevant ancillary equipment.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, has confirmed that the rental rates for the land use rights and properties are fair, reasonable and consistent with the prevailing market rentals of similar assets.

(N) Leasing of Certain Properties and Ancillary Equipment by China Post Group and/or its Associates to us

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement, China Post Group and/or its associates have agreed to lease certain of their land use rights, properties and ancillary equipment to us.

The table below sets out the summary of the historical amounts and annual caps of the properties and ancillary equipment leased by China Post Group and/or its associates to us:

	Historical amounts				**Annual caps**		
	For the year ended December 31,			**For the three months ended March 31,**	**For the year ending December 31,**		
	2013	**2014**	**2015**	**2016**	**2016**	**2017**	**2018**
	(in millions of RMB)						
Leasing of certain properties and ancillary equipment by China Post Group and/or its associates to us	766	811	854	237	1,124	1,171	1,223

Reasons for the Transactions

We lease certain of the properties and ancillary equipment of China Post Group and/or its associates mainly for our outlets or office purposes. The aforesaid properties and ancillary equipment meet our business needs and relocation would cause unnecessary suspension of business and expenses.

Pricing Policies

The rental rates under the Land Use Rights and Properties Leasing Framework Agreement shall be determined with reference to the prevailing market rates, which is the rates for the leasing of similar assets by independent third parties in the same or adjacent area on normal commercial terms.

Historical Amounts and Basis of Annual Caps

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the aggregate amount of the properties and ancillary equipment leased by China Post Group and/or its associates to us was RMB766 million, RMB811 million, RMB854 million and RMB237 million, respectively.

For the years ending December 31, 2016, 2017 and 2018, the relevant annual caps are expected to be RMB1,124 million, RMB1,171 million and RMB1,223 million, respectively. When estimating the annual caps of the rental payments, our Directors have taken into consideration the aforesaid historical amounts, in particular the maximum transaction amount in the past three years and the first quarter of 2016, and also the following key factors:

- increase in rental rates in line with prevailing market rental rates upon renewal of certain existing leases;
- expected market rental rates of such properties and ancillary equipment; and
- expected total gross floor area of the properties to be leased by China Post Group and/or its associates to us as well as expected use of relevant ancillary equipment.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, has confirmed that the rental rates for the land use rights and properties are fair, reasonable and consistent with the prevailing market rentals of other similar assets.

Comprehensive Services

The services provided by China Post Group and/or its associates to us which constitute non-exempt continuing connected transactions pursuant to the Comprehensive Services Framework Agreement include:

- Provision of marketing services of deposits and other businesses, see "— *(O) Provision of marketing services of deposits and other businesses by China Post Group and/or its associates to us*"; and
- Provision of labor services, see "— *(P) Provision of labor services by China Post Group and/or its associates to us.*"

(O) Provision of Marketing Services of Deposits and Other Businesses by China Post Group and/or its Associates to us

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide marketing services of deposits and other businesses to us.

The table below sets out the summary of the historical amounts and annual caps of transactions of provision of marketing services of deposits and other businesses (such as credit card business) by China Post Group and/or its associates to us:

	Historical amounts				Annual caps		
	For the year ended December 31,			For the three months ended March 31,	For the year ending December 31,		
	2013	2014	2015	2016	2016	2017	2018
	(in millions of RMB)						
Provision of marketing services of deposits and other businesses by China Post Group and/or its associates to us	481	446	448	101	522	601	691

Reasons for the Transactions

We use the marketing services of deposits and other businesses provided by China Post Group and/or its associates. Since the agency outlets are not permitted to conduct corporate deposits businesses under the relevant rules, agency outlets will direct corporate clients to our directly-operated outlets. We expect that we will continue to use these marketing services provided by China Post Group and/or its associates following the Listing.

Pricing Policies

The fees of marketing services of deposits and other businesses provided by China Post Group and/or its associates to us are determined based on arm's length negotiations between the parties with reference to the interest rate payable by us to the corporate clients and the rate of return of such funds for our Bank.

Historical Amounts and Basis of Annual Caps

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the aggregate amount of the marketing services of deposits and other businesses provided by China Post Group and/or its associates to us was RMB481 million, RMB446 million, RMB448 million and RMB101 million, respectively.

For the years ending December 31, 2016, 2017 and 2018, the relevant annual caps are expected to be RMB522 million, RMB601 million and RMB691 million, respectively. When estimating the annual caps on the fees of marketing services of deposits and other businesses to be provided by China Post Group and/or its associates to us, our Directors have taken into consideration the planned promotion of our taking of corporate deposits through China Post Group and/or its associates, the historical growth in the corporate deposits taken by our Bank, our demand for marketing services of deposits and other businesses provided by China Post Group and/or its associates and the overall economic environment and market competition in the future.

(P) Provision of Labor Services by China Post Group and/or its Associates to us

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide labor services to us.

The table below sets out the summary of the historical amounts and annual caps of labor services provided by China Post Group and/or its associates to us:

	Historical amounts				**Annual caps**		
	For the year ended December 31,			**For the three months ended March 31,**	**For the year ending December 31,**		
	2013	**2014**	**2015**	**2016**	**2016**	**2017**	**2018**
	(in millions of RMB)						
Provision of labor services by China Post Group and/or its associates to us	602	606	654	144	773	867	972

Reasons for the Transactions

China Post Group and/or its associates provide various banking related labor services and other general business services to us. In particular, banking related labor services include transportation and storage of cash and equipment maintenance services, and general commercial services include property management, advertising and training and other services, of which the banknotes transportation and cash storage services are provided by China Post Group and/or its associates or through independent third parties engaged by it/them. Certain services are procured by China Post Group and/or its associates from independent third parties for use by China Post Group and/or its associates and us to leverage on stronger bargaining power resulting from bulk purchase. We expect that we will continue to use such labor services provided by China Post Group and/or its associates following the Listing. Continuous use of the labor services provided by China Post Group and/or its associates will be beneficial to us in light of the quality, cost, efficiency and convenience of such services.

Pricing Policies

The fees of the labor services provided by China Post Group and/or its associates to us are determined according to the following principles:

- In respect of the banknotes transportation and cash storage services provided by independent third parties engaged by China Post Group and/or its associates, we and China Post Group and/or its associates share the relevant expenses in proportion to the respective number of outlets using such services.

- In respect of banknotes transportation and cash storage services provided by China Post Group and/or its associates, we and China Post Group and/or its associates determine the price with reference to the prevailing market price. In the absence of market price for such services, we and China Post Group and/or its associates share the relevant costs in proportion to the respective number of outlets using such services.

- In respect of the equipment maintenance services provided by independent third parties engaged by China Post Group and/or its associates, we and China Post Group and/or its associates share the relevant expenses in proportion to the respective number of outlets or personnel using such services.

- In respect of the equipment maintenance services provided by China Post Group and/or its associates, we and China Post Group and/or its associates share the relevant costs in proportion to the respective number of outlets using such services.

- The costs of property management, advertising and training and other services are determined by the parties based on arm's length negotiation with reference to the prevailing market price.

Historical Amounts and Basis of Annual Caps

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the aggregate amount of the labor services provided by China Post Group and/or its associates to us was RMB602 million, RMB606 million, RMB654 million and RMB144 million, respectively.

For the years ending December 31, 2016, 2017 and 2018, the relevant annual caps are expected to be RMB773 million, RMB867 million and RMB972 million, respectively. When estimating the annual caps of the labor services to be provided by China Post Group and/or its associates, our Directors have taken into consideration the aforesaid historical amounts, in particular the maximum transaction amounts in the past three years and the first quarter of 2016, and also, among other things, key factors such as the expected growth in labor services required for our business development and the increase of the market price of relevant services during 2015 and 2016. Meanwhile, it is expected that certain services will mainly be provided in subsequent quarters.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms, and our Directors currently expect that each of the applicable percentage ratios under Chapter 14A of the Listing Rules will exceed 0.1% but be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, these transactions will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Continuing Connected Transactions Subject to Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

We have entered into the following continuing connected transactions which are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Agency Banking Businesses

(Q) Agency Banking Businesses of Agency Outlets

1. Overview

On September 7, 2016, according to the Measures for the Administration of Agency Business Institutions and with an aim to leverage on the respective strengths of China Post Group and us and to promote the long-term and stable growth of our businesses, we and China Post Group entered into an agency banking businesses framework agreement (the "Agency Banking Businesses Framework Agreement") in relation to our entrustment of China Post Group to conduct part of our commercial banking businesses through agency outlets (the "Agency Banking Businesses").

As of March 31, 2016, we had a total of 40,057 business outlets, comprising 8,301 directly-operated outlets and 31,756 agency outlets, covering all cities in China and 98.9% of the County Areas.

The Agency Banking Businesses under the Agency Banking Businesses Framework Agreement include:

- Renminbi personal deposit taking business (the "Agency Renminbi Deposit Taking Business") and foreign currency personal deposit taking business (the "Agency Foreign

Currency Deposit Taking Business") conducted by the agency outlets. The Agency Renminbi Deposit Taking Business and the Agency Foreign Currency Deposit Taking Business are collectively referred to as the agency deposit taking business (the "Agency Deposit Taking Business").

- Financial settlement services, financial agency services and other services provided by agency outlets. The financial settlement services primarily include cross-region transactions, cross-bank transactions, personal remittance, management on accounts with small balances, short message services (SMS) and other settlement businesses, whereas financial agency services and other services primarily include bancassurance, agency sales of government bonds and funds, collection and payment agency services and other services. The financial settlement services, financial agency services and other services provided by agency outlets are collectively referred to as agency banking intermediary businesses (the "Agency Banking Intermediary Businesses").

The table below sets out the summary of the historical amounts of the continuing connected transactions between us and China Post Group and/or its associates under the Agency Banking Businesses Framework Agreement:

	Historical amounts			
	For the year ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
	(in millions of RMB)			
Deposit agency fee payable for the Agency Renminbi Deposit Taking Business	46,058	50,366	54,397	14,667
Fee payable for the Agency Banking Intermediary Businesses				
in respect of provision of financial settlement services by agency outlets(1)	4,195	4,423	4,334	1,100
in respect of provision of financial agency and other services by agency outlets(2)	525	664	1,208	419
Subtotal	4,720	5,087	5,542	1,519
Total	**50,778**	**55,453**	**59,939**	**16,186**

(1) Excludes fees generated from SMS business conducted by agency outlets during the Track Record Period, which was recognized directly in the financial statements of China Post Group. As we have been specified as the principal of this business, going forward, fees generated from relevant business will initially be recognized in our financial statements and then payable by us to China Post Group as the fee income of the agency outlets. Such change in the recognition of revenue does not have net financial impact on us.

(2) Excludes fees generated from bancassurance business conducted by agency outlets during the Track Record Period, which was recognized directly in the financial statements of China Post Group. Going forward, fees generated from bancassurance business will initially be recognized in our financial statements and then payable by us to China Post Group as the fee income of the agency outlets. Such change in the recognition of revenue does not have net financial impact on us.

2. Term

The Agency Banking Businesses Framework Agreement shall become effective from the date of execution with an indefinite term.

Pursuant to the Notice of the State Council on Issue of the Postal Service System Reform Plan* (國務院關於印發郵政體制改革方案的通知, "Guo Fa [2005] No. 27") and the Measures for the Administration of Agency Business Institutions, both we and China Post Group are under the obligation to adhere to the unique and exclusive operational model of directly-operated outlets and agency outlets without any specified duration. Under the national policies, neither we nor China Post Group is entitled to terminate the agency arrangement. In addition, under our operational model of directly-operated outlets and agency outlets, the agency outlets form an integral part of our nationwide network serving a large customer base. The deposits placed through agency outlets accounted for approximately 72.9%, 73.1%, 73.2% and 73.6% of our total personal deposits as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Leveraging our operational model, we provide convenient financial services to a broad customer base through a distribution network that has the largest number of outlets and the most extensive geographical coverage among PRC commercial banks.

A term of not more than three years for the Agency Banking Businesses Framework Agreement pursuant to Rule 14A.52 of the Listing Rules, which would subject the Agency Banking Businesses Framework Agreement to independent shareholders' approval every three years in light of the size of the transactions contemplated thereunder, would be unduly burdensome and impracticable. We and China Post Group will be exposed to the risk of not being able to renew the Agency Banking Businesses Framework Agreement upon expiry in fulfilment of the respective regulatory obligations and this would give rise to uncertainty of whether our business model, which contributes to our success, is sustainable.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirement that the term of the Agency Banking Businesses Framework Agreement shall not exceed three years under Rule 14A.52 of the Listing Rules, permitting an indefinite term subject to the Termination Right (as defined below). Our control over the scope of the network of agency outlets under the Agency Banking Businesses Framework Agreements and the Termination Right adequately safeguards the interests of us and our Shareholders as a whole following the Listing. Our Directors (including independent non-executive Directors) are of the view that setting an indefinite term (subject to exercise of the Termination Right) as the term of the Agency Banking Businesses Framework Agreement to maintain a stable and long-term arrangement between us and China Post Group is in our interests and the interests of our Shareholders and customers as a whole, and is a fair and reasonable arrangement for our unique business model established pursuant to the national policies. The waiver is granted on the condition that our independent non-executive Directors are able to confirm the matters set out in Rule 14A.55 of the Listing Rules as detailed in "— Corporate Governance Measures Adopted for Transactions under the Agency Banking Businesses Framework Agreement" below on an annual basis.

3. Principal Terms

The principal terms of the Agency Banking Businesses Framework Agreement are as follows.

- The agency outlets are entrusted by us to conduct all or part of the following banking businesses:

  (1) taking of Renminbi and foreign currency personal deposits;

  (2) domestic and international remittance;

  (3) bank card (debit card);

  (4) credit card repayment;

  (5) electronic banking business (including self-service banking business and SMS business);

  (6) collection and payment agency services based on our systems;

  (7) issuance and settlement of government bonds as an agent;

  (8) provision of personal deposit record services;

  (9) bancassurance, agency sales of funds, personal wealth management, asset management scheme and other financial products;

  (10) provision of third-party escrow services; and

  (11) other businesses entrusted by us.

- The agency outlets shall not conduct credit and treasury businesses as well as corporate deposits business.

- We shall authorize our branches to, and China Post Group shall authorize the Postal Affiliates to, enter into separate agency agreements (the "Agency Agreements") at various levels, the terms of which shall not contradict those of the Agency Banking Businesses Framework Agreement.

- Postal Affiliates shall conduct commercial banking businesses entrusted by us through agency outlets, and conduct the relevant businesses in our name. Unless otherwise provided by laws, regulations and other requirements of regulatory authorities, we shall not entrust our commercial banking businesses to entities or individuals other than agency outlets without approval by the banking regulatory authorities. Postal Affiliates shall not conduct commercial banking businesses which are not entrusted by us. We are entitled to amend or terminate the Agency Agreements in the event that the operations of the agency outlets are conducted beyond the authorized scope. The agencies under Postal Affiliates shall not be entrusted to conduct our businesses and Postal Affiliates shall not entrust other entities or individuals to conduct our businesses.

- For more details of the pricing policy of the deposit agency fee for Agency Deposit Taking Business, see "— Pricing Policies."

- The establishment of new agency outlets are governed by an annual plan agreed between our headquarters and China Post Group and shall be approved by our headquarters, which shall then be filed with the banking regulatory authorities and implemented after obtaining their consent.

- Pursuant to the relevant requirements of the Outlines of Postal Savings Bank of China for Establishment of a Comprehensive Risk Management System* (中國郵政儲蓄銀行全面風險管理體系建設綱要), we shall incorporate risk management of agency outlets into our comprehensive risk management system to identify, measure, monitor and assess the risks exposed by agency outlets arising from personal deposit taking and Agency Banking Intermediary Businesses, accounting settlement, funds settlement, outlet operations, internal control, legal compliance, anti-money laundering, information technology, consumers' rights protection, reputation and public perception, safety and security and other businesses and management, formulate specific risk management requirements, issue risk warnings in a timely manner and assist Postal Affiliates in establishing a sound risk management system for agency outlets, thereby enabling Postal Affiliates to effectively identify, monitor, report and control various risks the agency outlets are exposed to. Postal Affiliates shall establish internal control and risk management system and accountability system in line with our requirements for management of various risks by effectively integrating requirements for identification, control and mitigation of various risks with business management process, setting up corresponding positions with adequate manpower and continuously improving infrastructure necessary for risk management so as to ensure effective operation of the risk management system for agency outlets. Certification mechanism of qualification to conduct Agency Banking Businesses shall be implemented for relevant personnel of agency outlets, and relevant personnel shall be certified to conduct Agency Banking Businesses. For information about our risk management systems, see "Risk Management."

- Postal Affiliates shall maintain a separate management account for conducting the Agency Deposit Taking Business, the costs and revenues of which shall be audited separately.

4. Termination Right

Under the national policies, neither we nor China Post Group is entitled to terminate the agency arrangement. In the event that there is any change in national policy in the future permitting the termination of the agency arrangement between us and China Post Group and we elect to terminate the Agency Banking Businesses Framework Agreement (the "Termination Right") following discussion between us and China Post Group, our independent non-executive Directors shall express their written opinions and the Board shall then make the decision. We shall follow the filing and approval procedures (if required) under relevant laws and regulations. The Agency Banking Businesses Framework Agreement (which includes the Termination Right) is required to be filed with the CBRC.

5. Reasons for the Transactions

The operational model of directly-operated outlets and agency outlets has provided us with the largest banking outlet network in China with the widest geographical coverage. For details, see "Business — Distribution Channels — Outlet Network — Operational Model of Directly-operated Outlets and Agency Outlets." The transactions between us and China Post Group under the Agency Banking Businesses Framework Agreement are conducted under our unique operational model established pursuant to national policies.

Agency outlets provide us with a stable source of funding. Moreover, agency outlets can expand the coverage of existing businesses with lower costs within shorter period of time when compared to establishment of directly-operated outlets. China Post Group bears the operating costs of the agency outlets.

6. Pricing Policies

A. Agency Deposit Taking Business

We pay deposit agency fee to China Post Group in respect of the Agency Deposit Taking Business.

(i) Agency Renminbi Deposit Taking Business

Currently, we calculate the deposit agency fee for the Agency Renminbi Deposit Taking Business according to the principle of "Fixed Rate, Scaled Fees Based on Deposit Type* (固定費率、分檔計費)," i.e., different deposit agency fee rates are applicable to deposits with different maturities (the "Scaled Fee Rate").

The Formula

The formula of "Fixed Rate, Scaled Fees Based on Deposit Type" for the Agency Renminbi Deposit Taking Business is as follows:

Monthly deposit agency fee at the relevant outlet = $\sum$(aggregate amount of deposit for each type of deposit at the outlet for the month x the respective deposit agency fee rate of the relevant type of deposit/365) − aggregate cash (including cash in transit) for the month at the relevant outlet x 1.50%/365

Deposit agency fee is only payable for the agency deposits received by us (i.e., excluding the reserves held by agency outlets and the agency deposits in transit). Accordingly, the formula above deducts the deposit agency fee corresponding to the "aggregate cash" (comprising the reserves held by agency outlets and the agency deposits in transit) to reach the actual amount of deposit agency fee payable by us. 1.50% (being the initial Composite Rate (as defined below) in 2011) instead of the actual Composite Rate for any relevant year will be applied for calculating the fee corresponding to the "aggregate cash" which is to be deducted from the total deposit agency fee payable.

Composite Rate

The composite rate (the "Composite Rate") for the year is calculated from the Scaled Fee Rate and the daily average balance of agency deposits with different maturities, and the Composite Rate derived varies with our agency deposits structure from year to year.

We consider the deposit taking function of the agency outlets most relevant to the determination of the deposit agency fee. Accordingly, apart from the cost of operation and the historical rate approved by the governmental authorities, the Composite Rate also reflects market funding cost (i.e., cost of obtaining alternative funds from the market). In 2011, we and China Post Group, having taken into account costs and other factors with reference to the historical weighted average net interest spread of agency deposits of our predecessor (being 1.50%), agreed to adopt 1.50% as the initial Composite Rate and implemented the "Fixed Rate, Scaled Fees Based on Deposit Type" on that basis. Accordingly, we and China Post Group agreed to impose an initial cap on the Composite Rate (the "Cap on Composite Rate") at 1.50%. For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016 respectively, the actual Composite Rate of the deposit agency fee was 1.44%, 1.43%, 1.42% and 1.43% respectively.

Fixed Rate, Scaled Fees Based on Deposit Type

The fixed rate applicable to different types of agency deposits varies depending on their maturity. The deposit agency fee rate for demand deposit (which carries lower interest rate) is higher whereas the deposit agency fee rate for time deposit (which carries higher interest rate) is lower. The deposit agency fee rate is designed to inversely correlate to the interest rate payable to customers for the relevant types of deposit in order to maintain a reasonable level of total cost of our deposits (comprising primarily interest rate and deposit agency fee rate).

Despite the higher deposit agency fee rate for demand deposit, the overall cost of demand deposit (i.e., deposit agency fee rate together with the interest rate payable) is generally lower than that for time deposit. Accordingly, from the perspective of optimizing our cost of deposits, it is in our interest to take deposits with shorter maturity which have lower overall costs for us, and it is also favourable to Postal Affiliates. The arrangement of "Scaled Fees Based on Deposit Type" is consistent with the aforesaid overall objective. Details of criteria, payment method and other matters for the Scaled Fee Rate are agreed between China Post Group and us by entering into supplemental agreement.

Please refer to "*— 7. Historical Amounts and Basis for Not Setting Monetary Annual Cap — A. Agency Deposit Taking Business*" for the Scaled Fee Rate, the daily average balance of agency deposits with different maturities and the corresponding deposit agency fee for the Agency Renminbi Deposit Taking Business from 2013 to 2015.

China Post Group has limited impact on the structure of deposits at the agency outlets as it is ultimately the decision of customers as to the types of deposit they require. For instance, the Composite Rate declined from 1.44% in 2013 to 1.42% in 2015 in line with the trend in the PRC banking industry of customers placing an increasing proportion of time deposits, notwithstanding an adjustment in the Scaled Fee Rate in the second half of 2013, pursuant to which the Scaled Fee Rate for demand deposit was raised and that for time deposit with a term of more than three months was reduced. This illustrates that the deposit structure is primarily driven by customers' demand. In addition, both our directly-operated outlets and agency outlets are subject to the same set of internal control systems to ensure completeness and accuracy of records of deposits placed (including but not limited to the amount and maturity) in order to manage any risk of manipulation of the deposit structure. Moreover, operations of the agency outlets are subject to regular inspections and *ad hoc* visits without prior notice by us. China Post Group only has limited impact on the types of deposit placed by customers by marketing its financial settlement businesses (such as payment services of pension) to increase the proportion of demand deposits. The marketing efforts by China Post Group of such financial settlement businesses are subject to applicable laws and regulations and our monitoring.

Adjustment of Deposit Agency Fee Rate for the Agency Renminbi Deposit Taking Business

The deposit agency fee rate may be adjusted under the two scenarios set out below:

- Proactive adjustment

(I) Adjustment of the Scaled Fee Rate based on actual operating needs and other factors by both parties

1. Where the Composite Rate derived from the adjusted Scaled Fee Rate and the average daily balance of each type of deposits for the preceeding accounting year does not exceed the Cap on Composite Rate:

   (1) if the Composite Rate will remain the same as the actual Composite Rate for the prceeding accounting year, such adjustment will be determined by negotiations between China Post Group and us and supplemental agreement shall be entered into; or

(2) if the Composite Rate will be different from the actual Composite Rate for the preceeding accounting year, the decision-making procedure below shall be followed for such adjustment and supplemental agreement shall be entered into: our Related Party Transactions Control Committee shall issue its written opinion to the Board for consideration; all independent non-executive Directors shall also express their written opinion after considering the advice of an independent financial advisor; the Board shall then make the decision.

2. Where the Composite Rate derived from the adjusted Scaled Fee Rate and the average daily balance of deposits of each type for the preceeding accounting year exceeds the Cap on Composite Rate, the decision-making procedure below shall be followed to adjust the Scaled Fee Rate and the Cap on Composite Rate and supplemental agreement shall be entered into: our Related Party Transactions Control Committee shall issue its written opinion to the Board for consideration; all independent non-executive Directors shall also express their written opinion after considering the advice of an independent financial advisor; the Board shall then make the decision; and if the Board decides to make the adjustment, the same shall also be submitted to the Shareholders' general meeting for consideration.

(II) Where the Composite Rate for the year is expected to exceed the Cap on Composite Rate, the decision-making procedure below shall be followed to adjust the Cap on Composite Rate and supplemental agreement shall be entered into: our Related Party Transactions Control Committee shall issue its written opinion to the Board for consideration; all independent non-executive Directors shall also express their written opinion after considering the advice of an independent financial advisor; the Board shall then make the decision; and if the Board decides to make the adjustment, the same shall be submitted to the Shareholders' general meeting for consideration.

If the Scaled Fee Rate remains the same as that in the preceding accounting year and the actual Composite Rate changes, but does not exceed the then prevailing Cap on Composite Rate, that does not constitute an adjustment in deposit agency fee rate.

The Cap on Composite Rate of 1.5% applies from the date of execution of the Agency Banking Businesses Framework Agreement until the date of next adjustment of the Cap on Composite Rate. After the supplemental agreement is entered into, the Cap on Composite Rate shall be governed by the supplemental agreement.

- Passive adjustment

China Post Group and we shall discuss whether and how to adjust the Composite Rate and corresponding Scaled Fee Rate adjusted based on the proposed Composite Rate within six months from the date on which the parties are aware of any significant fluctuation of interest rate in the future, for instance, the average annual net interest spread (calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities) of the Big Four for the most recent period fluctuates more than a certain threshold (the "Triggering Threshold") compared to the average annual net interest spread of the Big Four for the 10 accounting years preceding the last passive adjustment was made (including the year in which the last passive adjustment was made). The decision-making procedures below shall be followed: our Related Party Transactions Control Committee shall issue its written opinion to the Board for consideration; all independent non-executive Directors shall also express their written opinion after considering the advice of an independent financial advisor; the Board shall then make the decision; and if the Board decides to make the adjustment, the same shall also be submitted to the Shareholders' general meeting for consideration. Regardless of whether we and China Post Group complete the aforesaid discussion and decision-making procedures within six months from the date on which the parties are aware of the circumstances triggering the adjustment or not, the parties shall continue to follow the original Scaled Fee Rate before completion of the negotiation and decision-making procedures. If it is decided to adjust the Composite Rate and Scaled Fee Rate, the adjusted Composite Rate and Scaled Fee Rate will be applied from the date of approval at the Shareholders' general meeting.

The initial Triggering Threshold from the date of execution of the Agency Banking Businesses Framework Agreement is 24%, and 2015 shall be taken as the year when the last passive adjustment was made for the first time. As part of the negotiation and determination of whether and how to adjust the Composite Rate and Scaled Fee Rate, China Post Group and we shall also determine the Triggering Threshold for the next adjustment, and shall enter into supplemental agreement.

The initial Triggering Threshold (i.e., 24%) is determined between us and China Post Group having taken into account the historical level of net interest spread and the change in the cost-to-revenue ratio of the Big Four, the historical Composite Rate and our estimated cost-to-revenue ratio.

Both parties will continue to be bound by the terms of the Agency Banking Businesses Framework Agreement governing their rights and obligations until entering into a supplemental agreement regarding the adjustment of deposit agency fee rate under each of the circumstances above.

(ii) Agency Foreign Currency Deposit Taking Business

The calculation of the deposit agency fee for foreign currency deposit taking through agency outlets is not subject to the formula of "Fixed Rate, Scaled Fees Based on Deposit Type" as the foreign currency deposit taking business of agency outlets in 2011 was minimal. Alternatively and in line with market practice, (i) for short term foreign currency deposits (i.e., with a term of less than 12 months), the deposit agency fee rate shall be calculated based on the composite interest rate of foreign currency with corresponding term in the PRC interbank foreign currency market quoted on Bloomberg, deducting the composite rate of interests payable to customers on the foreign currency deposit with corresponding term; and (ii) for long term foreign currency deposits (i.e., with a term of 12 months or more), the deposit agency fee rate shall be calculated based on the composite interest rate of foreign currency with corresponding term in the global interest rate swap market quoted on Bloomberg (adjusted by the differences between overnight interest rate in the PRC interbank foreign currency market and London Interbank Offered Rate), deducting the composite rate of interest payable to customers on the foreign currency deposits with corresponding term. The deposit agency fee for foreign currency deposits may exceed 1.50%.

B. Agency Banking Intermediary Businesses

As the principal of the Agency Banking Intermediary Businesses and pursuant to the requirement of accounting standards, the revenue arising from the Agency Banking Intermediary Businesses shall initially be recognized by us, and the fee and commission will then be payable by us to Postal Affiliates following the principle of "fee payable to the entity providing the service (誰辦理誰受益)" and does not have any material net impact on our financial statements.

The rationale for adopting the arrangement of "fee payable to the entity providing the service" is as follows:

- In ascertaining the fee and commission payable to Postal Affiliates, the key considerations are the benefits we enjoy in connection with the funds brought by the Agency Banking Intermediary Businesses, and the costs we bear arising from the Agency Banking Intermediary Businesses, as further analyzed below:

  - The funds placed by customers with us for Agency Banking Intermediary Businesses enhance our liquidity from the time of placing of funds until such funds are utilized for Agency Banking Intermediary Businesses, which is beneficial to us. For illustration, in the course of providing agency sales of bancassurance, government bonds and funds and other Agency Banking Intermediary Businesses by agency outlets, the funds for purchasing the insurance, government bonds, funds and other products will first be placed at our Bank. It typically takes several days after such funds are placed at our Bank until settlement of purchase of the products, and such funds will generate interest income for us during the period.

  - The main costs borne by us arising from the Agency Banking Intermediary Businesses are costs of utilization of our servers and systems by agency outlets, including (1) costs of setting up such servers and systems; and (2) the operating and maintenance costs arising from processing of Agency Banking Intermediary Businesses by the servers and systems.

    - In respect of (1) above, as agency outlets form an integral part of our operating network, our Bank is the principal of the Agency Banking Intermediary Businesses providing financial services (including intermediary businesses) to all our customers. Accordingly, regardless of whether agency outlets conduct any intermediary businesses and use the servers and systems relevant to intermediary businesses, we are required to set up such servers and systems for the intermediary businesses operated by our directly-operated outlets. Moreover, the processing of the intermediary businesses of directly-operated outlets and agency outlets by our servers and systems is homogeneous. On this basis, the costs of setting up the relevant servers and systems are our necessary costs as the principal to satisfy the demand of our customers and our internal management, which shall not be borne by agency outlets, and have not been increased due to the processing of Agency Banking Intermediary Businesses.

- In respect of (2) above, the operating and maintenance costs of such servers and systems do not correlate to the volume of transactions. The operating and maintenance costs do not increase with the volume of transactions and are indeed more relevant to the quantity and complexity and other aspects of such servers and systems. As mentioned above, we as the principal is required to establish, operate and maintain the relevant servers and systems, and the processing of the intermediary businesses of agency outlets and directly-operated outlets by our servers and systems is homogeneous. Accordingly, there are minimal additional operating and maintenance costs of our servers and systems arising from the processing of Agency Banking Intermediary Businesses.

- The annual interest income generated by the funds from Agency Banking Intermediary Businesses is well above the additional operating and maintenance costs of the back office operating system of our Bank arising from the processing of Agency Banking Intermediary Businesses (annual interest income is estimated based on the total average daily balance of the funds placed by customers for agency sales of bancassurance, government bonds and funds and other Agency Banking Intermediary Businesses conducted by agency outlets. For the calculation of the corresponding interest income, (i) the rate of return of funds from agency bancassurance and government bonds is with reference to China 7-day interbank pledged repo and (ii) the rate of return of funds from agency funds is with reference to the Shanghai interbank overnight rate, primarily considering the shorter time taken for utilizing the funds for the purchase of the relevant products). Accordingly, the recognition of fees from Agency Banking Intermediary Businesses at gross amount by our Bank followed by the payment of the full amount in the form of fee and commission to Postal Affiliates, that is the principle of "fee payable to the entity providing the service," is in the interests of our Bank and our Shareholders as a whole, and is on normal commercial terms.

- Agency Banking Intermediary Businesses are among the core parts of the services provided by us to our customers and are paramount to our development and expansion. A majority of the customers of the agency outlets utilize the intermediary business services of agency outlets. The comprehensive services provided by agency outlets help attract loyal customers and deposits for us, which indirectly contributes to our profitability. Accordingly, the fee and commission payable to Postal Affiliates for the Agency Banking Intermediary Businesses takes into account the customers secured by agency outlets and the personal deposits placed by them to us through agency outlets (which accounted for approximately 72.9%, 73.1%, 73.2% and 73.6% of the total personal deposits of our Bank as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively).

- Based on the above, the recognition of fee from Agency Banking Intermediary Businesses at gross amount by our Bank followed by the payment of fee and commission to Post Affiliates pursuant to the principle of "fee payable to the entity providing the service," is in the interests of our Bank and our Shareholders as a whole, and is on normal commercial terms.

7. Historical Amounts and Basis for Not Setting Monetary Annual Cap

A. Agency Deposit Taking Business

(i) Agency Renminbi Deposit Taking Business

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the aggregate amount of the deposit agency fee we paid for the Agency Renminbi Deposit Taking Business was RMB46,058 million, RMB50,366 million, RMB54,397 million and RMB14,667 million, respectively. For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the Composite Rate in respect of the Agency Renminbi Deposit Taking Business was approximately 1.44%, 1.43%, 1.42% and 1.43%, respectively. The table below sets forth the daily average balances, Scaled Fee Rate and the corresponding deposit agency fee paid to China Post Group in respect of the Agency Renminbi Deposit Taking Business from 2013 to 2015:

	As of/For the six months ended June 30,(1)			As of/For the six months ended December 31,(1)			As of/For the year ended December 31,	As of/For the year ended December 31,			As of/For the year ended December 31,			As of/For the three months ended March 31,		
	2013							2014			2015			2016		
	Daily average balance	Scaled Fee Rate	Deposit agency fee(2)	Daily average balance	Scaled Fee Rate	Deposit agency fee(2)	Deposit agency fee(2)	Daily average balance	Scaled Fee Rate	Deposit agency fee	Daily average balance	Scaled Fee Rate	Deposit agency fee	Daily average balance	Scaled Fee Rate	Deposit agency fee
	(in billions of RMB, except percentage)															
Demand	1,119.85	2.10%	11.66	1,163.29	2.30%	13.47	25.13	1,237.43	2.30%	28.48	1,304.71	2.30%	30.03	1,436.27	2.30%	8.24
Demand or time	20.38	1.45%	0.15	18.48	1.50%	0.14	0.29	16.76	1.50%	0.25	13.95	1.50%	0.21	13.78	1.50%	0.05
Call deposits	15.15	1.45%	0.11	12.75	1.70%	0.11	0.22	12.61	1.70%	0.21	12.57	1.70%	0.21	19.98	1.70%	0.08
3-month time deposit	106.38	1.25%	0.66	108.92	1.25%	0.69	1.35	120.61	1.25%	1.51	128.19	1.25%	1.60	131.42	1.25%	0.41
Half-year time deposit	120.63	1.20%	0.72	129.22	1.15%	0.75	1.47	143.84	1.15%	1.65	152.56	1.15%	1.75	144.89	1.15%	0.42
1-year time deposit	1,397.32	1.16%	8.04	1,441.48	1.08%	7.85	15.89	1,570.78	1.08%	16.96	1,768.56	1.08%	19.10	1,897.59	1.08%	5.11
2-year time deposit	125.92	0.90%	0.56	130.57	0.50%	0.33	0.89	149.74	0.50%	0.75	176.50	0.50%	0.88	174.35	0.50%	0.22
3-year time deposit	181.08	0.60%	0.54	195.20	0.30%	0.30	0.84	220.05	0.30%	0.66	231.03	0.30%	0.69	238.67	0.30%	0.18
5-year time deposit	44.43	0.50%	0.11	47.14	0.20%	0.05	0.16	50.56	0.20%	0.10	50.37	0.20%	0.10	48.24	0.20%	0.02
Daily aggregate cash (including cash in transit)(3)	13.08	-1.50%	-0.10	10.57	-1.50%	-0.08	-0.18	13.12	-1.50%	-0.20	11.19	-1.50%	-0.17	15.82	-1.50%	-0.06
Total	3,131.14		22.45	3,247.05		23.61	46.06	3,522.38		50.37	3,838.44		54.40	4,105.19		14.67

(1) The Scaled Fee Rate was adjusted in the second half of 2013.

(2) Deposit agency fee for the year ended December 31, 2013 equals to the sum of deposit agency fee for the six months ended June 30, 2013 and agency fee for the six months ended December 31, 2013.

(3) The total daily average balance does not include the daily aggregate cash (including cash in transit).

(ii) Agency Foreign Currency Deposit Taking Business

The amount of agency deposit fee in respect of foreign currency deposits was insignificant during the Track Record Period. As the calculation of the agency deposit fee in respect of foreign currency deposits does not follow the "Fixed Rate, Scaled Fees Based on Deposit Type" formula, the agency deposit fee rate in respect of foreign currency is not subject to the Cap on Composite Rate for Renminbi deposit taking.

(iii) Basis for not Setting Monetary Annual Cap

For the cap of deposit agency fee payable for Agency Deposit Taking Businesses, the amount of deposit agency fee depends on the amount and type of agency deposits of Renminbi and foreign currency, which we have no control over. Therefore, we cannot estimate the amount of the deposit agency fee payable to China Post Group and/or its associates. As a result, historical amounts of deposit agency fee fluctuate and reference to historical amounts may not be a fair and meaningful indication of the expected deposit agency fee in the future. It is impracticable to set a monetary cap on the deposit agency fee payable by us to China Post Group which would unduly constrain our operation. Accordingly, we intend to continue calculating the deposit agency fee payable to China Post Group for Renminbi deposit based on the formula set out above with the Cap on Composite Rate (initially set at 1.50%), instead of setting any monetary cap on the amount of the deposit agency fee for Renminbi deposit. The Cap on Composite Rate reflects the historical rate endorsed by the regulatory authorities, operational costs of agency outlets and costs of obtaining alternative funds from the market and is the result of long term negotiation between China Post Group and us. The Cap on Composite Rate is lower than the maximum rate of deposit agency fee that we would bear on normal commercial terms (with reference to the cost of obtaining alternative funds from the market).

For deposit agency fee payable to China Post Group for Agency Foreign Currency Deposit Taking Business, we intend to continue to adopt the current approach to determine the amount of deposit agency fee, without setting any monetary cap or cap on the rate. See "— 6. Pricing policies — A. Agency Deposit Taking Business — (ii) Agency Foreign Currency Deposit Taking Business" for details.

For the cap of deposit agency fee payable for Agency Deposit Taking Business, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual cap in terms of monetary value. See "— 6. Pricing policies."

B. Agency Banking Intermediary Businesses

Our directly-operated outlets together with the agency outlets operated through China Post Group form our operation network. The intermediary business services provided by directly-operated outlets and the agency outlets are essentially the same to a large extent and are not differentiated by the customers. Neither we nor China Post Group has any control over the transaction amount of the Agency Banking Intermediary Businesses which in turn depends on the volume of intermediary business services provided through the agency outlets to customers. As customers' demand for intermediary business services is affected by a number of factors such as market supply and demand, local banking market competition, and relevant policies of governments at different levels, the historical amounts of fee and commission paid by us to China Post Group in respect of Agency Banking Intermediary Businesses fluctuate and may not be a fair and meaningful indication of the expected fee and commission payable by us to China Post Group. Accordingly, it is impracticable to estimate accurate annual caps for the Agency Banking Intermediary Businesses. Moreover, the Agency Banking Intermediary Businesses are usually conducted within a short timeframe and it would be impracticable to require us to comply with the requirements of announcement and independent shareholders' approval whenever the caps are exceeded, which may happen from time to time given it is impracticable to make an accurate estimate of the future transaction amount as discussed above. It would not be in the interests of our Bank and our customers to set any annual cap for the Agency Banking Intermediary Businesses which would hinder our provision of those services to customers through agency outlets in a timely and predictable manner.

The revenue arising from the Agency Banking Intermediary Businesses shall initially be recognized in our financial statements, and will then be payable by us to Postal Affiliates following the principle of "fee payable to the entity providing the service." It does not have any material net impact on our financial statements (primarily being the minimal marginal cost arising from the utilization of our servers and systems by agency outlets, which is compensated by the enhanced liquidity and other benefits brought by the funds placed by customers for Agency Banking Intermediary Businesses, see "— 6. Pricing policies — B. Agency Banking Intermediary Businesses"). Therefore, the annual cap requirement is not applicable or necessary for the fee and commission payable by us to Postal Affiliates.

On the above basis, we have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to set an annual cap. We will continue to adopt the "fee payable to the entity providing the service" arrangement in respect of the Agency Banking Intermediary Businesses and will not set any annual cap for such fee and commission. See "— 6. Pricing policies — B. Agency Banking Intermediary Businesses."

8. *Corporate Governance Measures Adopted for Transactions under the Agency Banking Businesses Framework Agreement*

To ensure the fairness and reasonableness of the terms of the Agency Banking Businesses Framework Agreement and that the transactions under the Agency Banking Businesses Framework Agreement are conducted on normal commercial terms, we have adopted the following corporate governance measures:

- we will re-comply with the announcement and independent shareholders' approval requirements before we propose to effect any material change to the terms of the Agency Banking Businesses Framework Agreement pursuant to Rule 14A.54 of the Listing Rules;

- our independent non-executive Directors shall review the transactions contemplated under the Agency Banking Businesses Framework Agreement every year pursuant to Rule 14A.55 of the Listing Rules and confirm in our annual report whether the transactions have been entered into (1) in our ordinary and usual course of business; (2) on normal commercial terms or better; and (3) according to the Agency Banking Businesses Framework Agreement on terms that are fair and reasonable and in the interests of our Shareholders as a whole;

- we have established the Related Party Transactions Control Committee in accordance with applicable regulatory requirements for PRC commercial banks. The Related Party Transactions Control Committee shall comprise at least three members with an independent non-executive Director acting as the chairman and the majority of members being independent non-executive Directors. For details, see "Directors, Supervisors and Senior Management — Board Committees — Related Party Transactions Control Committee";

- in the event that the Composite Rate for a certain year is expected to exceed the Cap on Composite Rate (initially at 1.50%), it will be regarded as a material change to the terms of the Agency Banking Businesses Framework Agreement and will require compliance with the circular, independent financial advice and independent shareholders' approval requirements under the Listing Rules. The adjustment of Scaled Fee Rate in other scenarios will also be subject to different levels of scrutiny by the Related Party Transactions Control Committee, independent non-executive Directors, the Board and/or the independent Shareholders, and will be disclosed by way of announcement;

- the Board shall report to the Shareholders' general meeting on implementation of related party transaction management systems, operation of the Related Party Transactions Control Committee under the Board as well as the connected transactions conducted on an annual basis, primarily covering the Composite Rate of Renminbi deposit agency fee, level of market interest rate and other matters as specified by laws and regulations;

- we will disclose the information in respect of the Agency Deposit Taking Business (in respect of Agency Renminbi Deposit Taking Business, the Composite Rate, the Scaled Fee Rate, the daily average balance of deposit with different maturities and the corresponding deposit agency fee for the relevant year; in respect of Agency Foreign Currency Deposit

Taking Business, the formulas for calculating the deposit agency fee for short term and long term deposit and the actual deposit agency fee for the relevant year) and Agency Banking Intermediary Businesses (including the amount of fee and commission payable for the relevant year) in our annual reports following the Listing; and

- the transactions under the Agency Banking Businesses Framework Agreement shall be reviewed by accountants engaged by us on an annual basis pursuant to Rule 14A.56 of the Listing Rules.

WAIVERS

Waivers from Announcement and Independent Shareholders' Approval Requirements

We have applied for, and the Hong Kong Stock Exchange has granted us, waivers from strict compliance with the announcement and (if applicable) independent shareholders' approval requirements under the Listing Rules in respect of the non-exempt continuing connected transactions mentioned above.

Waivers from Requirements to Set a Term for the Agency Banking Businesses Framework Agreement and Set Annual Caps Expressed in Monetary Terms

We have applied for, and the Hong Kong Stock Exchange has granted us, in respect of Agency Banking Businesses Framework Agreement, a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Listing Rules; and for Agency Deposit Taking Business and Agency Banking Intermediary Businesses, a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules.

DIRECTORS' CONFIRMATION

Our Directors (including independent non-executive Directors) believe that the continuing connected transactions set out above have been entered into in our ordinary and usual course of business on normal commercial terms which are fair and reasonable and in the interests of us and our Shareholders as a whole, and the proposed annual caps (if any) in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of us and our Shareholders as a whole.

Our Directors (including independent non-executive Directors) believe that transactions contemplated under the Agency Banking Businesses Framework Agreement as a whole (including (i) the term of the Agency Banking Businesses Framework Agreement being indefinite; (ii) the basis for not setting monetary annual cap for the Agency Banking Businesses Framework Agreement; and (iii) the initial cap on the Composite Rate being 1.5% and its calculation basis) have been entered into in our ordinary and usual course of business on normal commercial terms which are fair and reasonable and in the interests of us and our Shareholders as a whole.

JOINT SPONSORS' CONFIRMATION

Based on the documentation and data provided by us and participation in the due diligence and discussion with us, the Joint Sponsors believe that the aforesaid non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of our Bank on normal commercial terms which are fair and reasonable, and in the interests of our Bank and our Shareholders as a whole, and the proposed annual caps (if any) in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Bank and our Shareholders as a whole.

In respect of the transactions contemplated under the Agency Banking Businesses Framework Agreement (including (i) the term of the Agency Banking Businesses Framework Agreement being indefinite; (ii) the basis for not setting monetary annual cap for the Agency Banking Businesses Framework Agreement; and (iii) the initial cap on the Composite Rate being 1.5% and its calculation basis), having made reasonable inquiries and after due and careful consideration, the Joint Sponsors concur with the views of our Directors above.

BOARD OF DIRECTORS

The Board of Directors comprises twelve Directors, including three executive Directors, five non-executive Directors and four independent non-executive Directors.

The following table sets out the information in respect of the Directors of our Bank:

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Li Guohua (李國華)........	56	March 2007	Chairman, Non-executive Director	December 2011 March 2007	Responsible for presiding over the Board and performing his duties as the chairman of the Strategic Planning Committee under the Board.
Lyu Jiajin (呂家進)........	48	March 2007	Executive Director, President	March 2007 December 2012	Responsible for the daily operations and management of our Bank, performing his duties as the chairman of the Social Responsibility Committee and a member of the Strategic Planning Committee, the Risk Management Committee and the Nomination and Remuneration Committee under the Board, and in charge of the General Office, the Risk Management Department and the Human Resources Department of our Bank.
Zhang Xuewen (張學文)........	54	December 2012	Executive Director, Vice president	December 2012 December 2012	Performing his duties as a member of the Strategic Planning Committee, the Related Party Transactions Control Committee and the Nomination and Remuneration Committee under the Board, and in charge of the Corporate Banking Department, the Strategic Customers Department, the Investment Banking Department, the Financial Management Department and the Security Department of our Bank.

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Yao Hong (姚紅)	50	March 2007	Executive Director, Vice president	May 2016 March 2007	Performing her duties as a member of the Strategic Planning Committee, the Related Party Transactions Control Committee and the Social Responsibility Committee under the Board, and in charge of the Personal Banking Department, the Credit Card Center, the International Business Department, the Credit Management Department and the Asset and Liability Department of our Bank.
Yang Songtang (楊松堂)........	51	December 2012	Non-executive Director	December 2012	Performing his duties as the chairman of the Risk Management Committee and a member of the Strategic Planning Committee under the Board.
Tang Jian (唐健)	56	December 2012	Non-executive Director	December 2012	Performing his duties as a member of the Risk Management Committee and the Social Responsibility Committee under the Board.
Lai Weiwen (賴偉文)........	59	November 2015	Non-executive Director	November 2015	Performing his duties as a member of the Audit Committee and the Risk Management Committee under the Board.
Chin Hung I David (金弘毅)........	48	May 2016	Non-executive Director	May 2016	Performing his duties as a member of the Audit Committee and the Social Responsibility Committee under the Board.
Ma Weihua (馬蔚華)	68	December 2013	Independent non-executive Director	December 2013	Performing his duties as the chairman of the Related Party Transactions Control Committee and a member of the Strategic Planning Committee and the Audit Committee under the Board.
Bi Zhonghua (畢仲華)........	64	December 2013	Independent non-executive Director	December 2013	Performing her duties as the chairwoman of the Audit Committee and a member of the Related Party Transactions Control Committee, the Nomination and Remuneration Committee and the Social Responsibility Committee under the Board.

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Fu Tingmei (傅廷美)........	50	May 2016	Independent non-executive Director	May 2016	Performing his duties as a member of the Related Party Transactions Control Committee and the Nomination and Remuneration Committee under the Board.
Gan Peizhong (甘培忠)........	60	May 2016	Independent non-executive Director	May 2016	Performing his duties as the chairman of the Nomination and Remuneration Committee and a member of the Audit Committee and the Risk Management Committee under the Board.

Li Guohua (李國華), aged 56, has been appointed as our non-executive Director and our Chairman since March 2007 and December 2011, respectively. He served successively as the director of general office and a deputy chief at the Jiangxi Jiujiang Municipal Posts and Telecommunications Bureau* (江西省九江市郵電局) from July 1986 to November 1994, the chief of the Jiangxi Fuzhou Municipal Posts and Telecommunications Bureau* (江西省撫州市郵電局) from November 1994 to December 1996, a deputy chief of the Jiangxi Posts and Telecommunications Administration Bureau * (江西省郵電管理局) from December 1996 to December 1998. He served successively as a deputy chief (presiding over work) and a chief at the Jiangxi Post Bureau* (江西省郵政局) (which governed the postal savings and remittance bureau) from December 1998 to July 2005. He served as a deputy post master general of the State Post Bureau (which governed the postal savings and remittance bureau) from July 2005 to November 2006. He also served as a deputy president of China Post Group from November 2006 to September 2011 and has been serving as the president of China Post Group since September 2011.

Mr. Li obtained a master's degree in business administration from Nanchang University and University of Poitiers, France in July 2000. Mr. Li was qualified as a senior administrative officer granted by the Senior Professional and Technical Positions in Administration Qualification Evaluation Commission of the State Post Bureau* (國家郵政局政工系列高級專業技術職務任職資格評審委員會) in December 1999 and a senior economist granted by the Senior Professional and Technical Positions in Economics Qualification Evaluation Commission of the Jiangxi Post Bureau* (江西省郵政局經濟系列高級專業技術職務任職資格評審委員會) in December 2000. Mr. Li was awarded the National Labor Day Award by the All-China Federation of Trade Unions in April 2004, "Chinese Outstanding Entrepreneur in Corporate Social Responsibility" of 2012 at the Fifth Corporate Social Responsibility Summit in China in December 2012, "Pioneer Individual in Social Responsibility" of 2012 by the China Banking Association in June 2013, "Top Ten Financial Figures of 2014 in China" by the Chinese Banker Magazine in December 2014 and "Top Ten PRC Entrepreneurs of 2014" by the China Enterprise Directors Association in January 2015.

Lyu Jiajin (呂家進**)**, aged 48, has been appointed as our executive Director and our president since March 2007 and December 2012, respectively. He also served as our vice president from March 2007 to December 2012. He served successively as a deputy section chief of the operation section of savings and remittance and a section chief of technology management section at the Henan Postal Savings and Remittance and Distribution Bureau* (河南省郵政儲匯發行局) from November 1992 to January 1997, a cadre and a deputy chief of the postal savings and remittance bureau at the Henan Posts and Telecommunications Administration Bureau* (河南省郵電管理局) (which governed the postal savings and remittance bureau) from January 1997 to December 1998, a deputy chief and the chief, among other roles, at the Henan Postal Savings and Remittance Bureau* (河南省郵政儲匯局) from December 1998 to October 1999, the chief of the Henan Xinxiang Municipal Post Bureau* (河南省新鄉市郵政局) (which governed the postal savings and remittance bureau) from October 1999 to March 2001, a deputy chief of the Henan Post Bureau* (河南省郵政局) (which governed the postal savings and remittance bureau) from March 2001 to February 2004, a deputy chief of the Liaoning Post Bureau* (遼寧省郵政局) (which governed the postal savings and remittance bureau) from February 2004 to July 2005, a deputy director general at the Postal Savings and Remittance Bureau of the State Post Bureau* (國家郵政局郵政儲匯局) from July 2005 to March 2007. He has also been serving as a deputy president of China Post Group since May 2016. In addition, Mr. Lyu currently serves as a deputy chairman of the Standing Council of the China Banking Association, a standing director of the China Finance 40 Forum, an industry supervisor at the PBC School of Finance, University of Tsinghua and a vice president of the World Savings and Retail Banking Institute.

Mr. Lyu obtained an executive master of business administration degree from Dongbei University of Finance and Economics in June 2007 and a doctor's degree in economics from Southwestern University of Finance and Economics in June 2014. Mr. Lyu was qualified as a senior economist granted by the Senior Professional and Technical Positions in Economic Qualification Evaluation Commission of the Henan Post Bureau* (河南省郵政局經濟系列高級專業技術職務任職資格評審委員會) in June 2002. Mr. Lyu was awarded "Pioneer Individual in Social Responsibility" of 2013 by the China Banking Association in June 2014. In recognition of Mr. Lyu's outstanding achievements in the post finance and inclusive finance areas, Mr. Lyu has been entitled to special government allowance granted by the State Council since January 2015.

Zhang Xuewen (張學文**)**, aged 54, has been appointed as our executive Director and vice president since December 2012. He served as a deputy director of the internal trade division II of the trade finance department of the MOF from September 1995 to July 1998 and a deputy director of the grain division of the economy and trade department of the MOF from July 1998 to June 2000. He served as a deputy director and the director of the grain division of the economic development department of the MOF from June 2000 to July 2004 and a deputy director general of the economic development department of the MOF from July 2004 to December 2012. In addition, Mr. Zhang currently serves as a deputy chairman of the Rural Social Insurance Commission of China Social Insurance Association* (中國社會保險學會農村社會保險委員會) and a deputy chairman of the Banking Accounting Society of China.

Mr. Zhang obtained a bachelor's degree in economics from Zhongnan University of Finance and Economics* (中南財經大學) in July 1986, a doctor's degree in economics from Dongbei University of Finance and Economics in June 2012, and was qualified as a senior economist granted by the Professional and Technical Positions Qualification Evaluation Commission of the MOF* (財政部專業技術職務評審委員會) in January 2014.

Yao Hong (姚紅), aged 50, has been appointed as our executive Director and our vice president since May 2016 and March 2007, respectively. Ms. Yao served successively as a cadre and a deputy director of the savings business division under the postal savings and remittance bureau of the Ministry of Posts and Telecommunications of the PRC* (中國郵電部郵政儲匯局) from August 1987 to February 1998, the director of the savings business division and an associate director general of the postal savings and remittance bureau of the State Post Bureau* (國家郵政局郵政儲匯局) from February 1998 to March 2007. She also has been serving as a director of China Post Life Insurance Company Limited since August 2009 and a director of China UnionPay Co., Ltd. since March 2014.

Ms. Yao obtained a bachelor's degree in economics from Southwestern University of Finance and Economics in July 1987, a master's degree in management from Hunan University in June 2006 and was qualified as a senior economist granted by the State Administration of the PRC Posts and Telecommunications* (中國郵電郵政總局) in December 1997. Ms. Yao was awarded the "National Women Pace Setter" by the All-China Women's Federation in March 2011.

Yang Songtang (楊松堂), aged 51, has been appointed as our non-executive Director since December 2012. He served as a journalist, an editor and a deputy director of the monthly publication department (deputy director level) of the China Reform Magazine Society of the National Economic System Reform Commission* (國家經濟體制改革委員會《中國改革》雜誌社) from July 1991 to April 1995. He served successively as a deputy director of the foreign study section of the research institute and the director (director level) of the reference section of the research institute and the director of the project approval confirmation division II of the asset valuation center of the State-owned Assets Administration Bureau* (國家國有資產管理局) from April 1995 to July 1998. He served successively as the director of the training department and the training and examination department at the China Appraisal Society from July 1998 to December 2000, the director of the legal department of the Chinese Institute of Certified Public Accountants from December 2000 to July 2004, and the director of the general department and a deputy secretary general (deputy director-general level), among other roles, of the China Appraisal Society from July 2004 to December 2012 and was a deputy governor (serving temporary position) at the People's government of Xiangxi Tujia and Miao Autonomous Prefecture of Hunan Province from November 2011 to December 2012.

Mr. Yang obtained a bachelor's degree in economics from Xiangtan University in June 1988, a master's degree in law from China University of Political Science and Law in September 1991 and a doctor's degree in economics from Zhongnan University of Economics and Law in June 2007. He was qualified as a senior economist granted by Professional and Technical Positions Qualification Evaluation Commission of the MOF* (財政部專業技術職務評審委員會) in January 2000.

Tang Jian (唐健), aged 56, has been appointed as our non-executive Director since December 2012. He served successively as a deputy director of the general office of the foreign affairs bureau of the PBOC* (中國人民銀行外事局) from February 1994 to July 1994, a deputy director of the general business division and a deputy director of the management division II of the financial institution of foreign capital regulatory department under the PBOC* (中國人民銀行外資金融機構管理司) from July 1994 to November 1996, and a cadre (deputy director level) of the department from December 1996 to August 1998. He served successively as a cadre (deputy director level), an associate consultant and a deputy director of the policy bank regulatory division, a deputy director of the policy bank regulatory division I, a deputy director and a consultant of the postal savings institutions supervision division of the bank regulatory department I of the PBOC from August 1998 to September 2003. He also served successively as the director of the postal savings institution supervision division of the banking regulatory department III, the director of the postal savings institution on-site supervision division of the banking regulatory department IV, the director of the on-site supervision division of the banking regulatory department IV and an associate counsel of the banking regulatory department IV of the CBRC from September 2003 to December 2012.

Mr. Tang obtained a master's degree in economics from Dongbei University of Finance and Economics in December 1997 and was qualified as a senior economist granted by the Senior Professional and Technical Positions in Economics Qualification Evaluation Commission of the PBOC* (中國人民銀行經濟系列高級專業技術職務評審委員會) in November 2001. Mr. Tang was awarded the title of "Regulatory Pace Setter" by the CBRC in December 2010.

Lai Weiwen (賴偉文), aged 59, has been appointed as our non-executive Director since November 2015. He served as a cadre and a senior staff member of the local division of the budget department, a principal staff member of local division II and a deputy director and the director of the special fund management division of the local budget department of the MOF from August 1983 to December 1995, a cadre (director level) of the Taiwan affairs department, a cadre (director level) of the economics department, the director of the division II of the economics department, a deputy head (director level) of the economics department and an inspector (deputy chief level) of the Liaison Office of the Central People's Government in the Macao S.A.R. from December 1995 to July 2002, a cadre (deputy director-general level) of the MOF from July 2002 to November 2002, a deputy editor-in-chief (deputy director-general level) of the China Financial and Economic Publishing House* (中國財政經濟出版社) from November 2002 to April 2012, a non-executive director of China Development Bank Corporation* (國家開發銀行股份有限公司) from April 2012 to April 2015, and a consultant of China Finance & Economy Media Group from April 2015 to November 2015.

Mr. Lai obtained a bachelor's degree in economics from Xiamen University in July 1983 and was qualified as a senior economist granted by the Professional and Technical Positions Qualification Evaluating Commission of the MOF* (財政部專業技術職務評審委員會) in October 1998.

Chin Hung I David (金弘毅), aged 48, has been appointed as our non-executive Director since May 2016. He served in the London office of PricewaterhouseCoopers from 1989 to 1994. He has been working with UBS since May 1994 and held a number of positions successively at UBS Investment

Bank, including the head of financial institutions group Asia, the head of investment banking Asia, and the head of corporate client solutions Asia. He also served as an alternate chief executive of UBS AG Hong Kong Branch and a member of the UBS Asia Pacific Executive Committee. Since July 2015, he has been a senior advisor, corporate client solutions of UBS in Asia.

Mr. Chin obtained a Bachelor of Arts degree in economics and Master of Arts from the University of Cambridge, United Kingdom in July 1989 and March 1993, respectively, and was a Visiting Bye Fellow at Selwyn College, the University of Cambridge, from October 2015 to June 2016. Mr. Chin qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales in May 1993.

Ma Weihua (馬蔚華), aged 68, has been appointed as our independent non-executive Director since December 2013. He worked at China Merchants Bank Co., Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 3968) and the Shanghai Stock Exchange (Stock Code: 600036), from December 1998 to May 2013 and served as the president, the chief executive officer and an executive director of the company from January 1999 to May 2013. He served as the chairman of China Merchant Signa Life Insurance Co., Ltd. from July 2003 to June 2013, a member of the standing council of the China Society for Finance and Banking* (中國金融學會) since March 2005, the chairman of China Merchants Fund (CMF) Management Co., Ltd from November 2007 to September 2013, the chairman of Wing Lung Bank Limited from October 2008 to May 2015, an independent non-executive director of China Petroleum & Chemical Corporation, a company listed on the Hong Kong Stock Exchange (Stock Code: 386), the Shanghai Stock Exchange (Stock Code: 600028), the New York Stock Exchange (Stock Code: SNP), and the London Stock Exchange (Stock Code: SNP), from May 2010 to May 2015, an independent non-executive director of Winox Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 6838), from June 2011 to March 2015, an independent director of Guotai Junan Securities Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 601211), from January 2013 to May 2016, and an independent non-executive director of China Resources Land Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1109), since July 2013, an independent non-executive director of China Eastern Airlines Corporation Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 670), the Shanghai Stock Exchange (Stock Code: 600115) and the New York Stock Exchange (Stock Code: CEA), since October 2013, an independent director of China World Trade Center Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600007), since August 2014, and an independent non-executive director of Legend Holdings Corporation, a company listed on the Hong Kong Stock Exchange (Stock Code: 3396), since June 2015.

Mr. Ma obtained a doctor's degree in economics from Southwestern University of Finance and Economics in June 1999.

Bi Zhonghua (畢仲華**)**, aged 64, has been appointed as our independent non-executive Director since December 2013. She served successively as a section chief and a deputy director, among other roles, at Fuzhou branch of Bank of China Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 3988) and the Shanghai Stock Exchange (Stock Code: 601988), from February 1980 to February 1993, a deputy general manager and the general manager of the international business department, the general manager of the operations department, an associate president, a vice president and the chairwoman of the board of supervisors, among other roles, of Industrial Bank Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 601166), formerly known as Fujian Industrial Bank* (福建興業銀行) and Fujian Industrial Bank Co., Ltd* (福建興業銀行股份有限公司), from March 1993 to January 2013. She also served as a deputy director (serving temporary position) of the research office under the Central Financial Work Commission of the Communist Party of China* (中國共產黨中央金融工作委員會研究室) from May 2002 to November 2002 and has been serving as an independent director of COFCO Trust Co., Ltd. since December 2014.

Ms. Bi graduated from economics department of Xiamen University in February 1980, majoring in planning and statistics and was qualified as a senior economist granted by the Fujian Senior Professional and Technical Positions in Economics Qualification Evaluating Commission* (福建省經濟專業技術人員高級職務評審委員會) in March 2000.

Fu Tingmei (傅廷美), aged 50, has been appointed as our independent non-executive Director since May 2016. From 1992 to 2003, Mr. Fu worked in several investment banks in Hong Kong and participated in many coporate finance transactions, including serving as a director of Peregrine Capital Limited and a managing director of BNP Paribas Peregrine Capital Limited. He served as a consultant (part-time) to the Central Policy Unit of the Government of the Hong Kong Special Administrative Region from January 2009 to December 2010. He has been serving as an independent non-executive director of CPMC Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 906), since June 2008, an independent non-executive director of Beijing Enterprises Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 392), since July 2008, and an independent non-executive director of Guotai Junan International Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1788), since June 2010.

Mr. Fu obtained a Master of Laws and a Doctor of Philosophy from the University of London, United Kingdom in November 1989 and March 1993, respectively.

Gan Peizhong (甘培忠), aged 60, has been appointed as our independent non-executive Director since May 2016. He worked at the Commission of Discipline Inspection of the Chinese Communist Party of Peking University* (北京大學黨委紀律檢查委員會) from September 1983 to May 1984 and has been teaching in the Peking University Law School (formerly known as Peking University Department of Law) since May 1984 and currently serves as a professor at Peking University Law School. He also served as an independent director of Beijing North Star Company Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 588) and the Shanghai Stock Exchange (Stock Code: 601588), from May 2009 to May 2015, an independent director of Chuying Agro-pastoral Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (Stock Code: 002477), from July 2009 to October 2015, an independent director of Foxit Software Incorporated, a company listed on the National Equities Exchange and Quotations LLC (Stock Code: 832422), from September 2013 to December 2015, and an independent director of Hebei Xiaojin Machinery Manufacturing Inc., a company listed on the National Equities Exchange and Quotations LLC (Stock Code: 835094), from February 2014 to May 2016. He has been serving as an independent director of Beijing Tongtech Co., Ltd., a company listed on the Shenzhen Stock Exchange (Stock Code: 300379), since April 2014, an independent director of Beijing Thunisoft Corporation Limited, a company listed on the Shenzhen Stock Exchange (Stock Code: 300271), since September 2015, and an independent director of Beijing Beyondsoft Corporation, a company listed on the Shenzhen Stock Exchange (Stock Code: 002649), since January 2016. In addition, he served as a deputy president of the PRC Securities Law Research

Association from December 2008 to October 2011 and has been serving as an executive deputy chairman since October 2011. He has been serving as a member of the expert advisory commission of the Second Branch of People's Procuratorate of Beijing Municipality* (北京市人民檢察院第二分院) since April 2009, an arbitrator at the South China International Economic and Trade Arbitration Commission from December 2012, a member of the Case Guidance Commission of the Supreme People's Court of the People's Republic of China* (中國最高人民法院案例指導工作專家委員會) since May 2013, an arbitrator in the China International Economic and Trade Arbitration Commission since May 2014, a fourth-term special advisor to the Supreme People's Court of China since January 2015 and a member and an adjunct professor of the "Expert Consultation Commission" of the Second Intermediate People's Court of Beijing Municipality* (北京市第二中級人民法院"專家諮詢委員會") since April 2015.

Mr. Gan obtained a doctor's degree in law from Peking University in January 2005.

BOARD OF SUPERVISORS

The Board of Supervisors comprises nine Supervisors. Responsibilities of the Board of Supervisors include supervising the performance and fulfillment of duties by the Board and senior management of our Bank and monitoring our financial condition, internal control and risk profile.

The following table sets forth the information on the Supervisors of our Bank:

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Chen Yuejun (陳躍軍)	51	December 2012	Chairman of the Board of Supervisors	December 2012	Presiding over the Board of Supervisors
Li Yujie (李玉杰)	55	May 2016	Shareholders representative Supervisor	May 2016	Performing his duties as a member of the Nomination Committee under the Board of Supervisors.
Zhao Yongxiang (趙永祥)	52	May 2016	Shareholders representative Supervisor	May 2016	Performing his duties as a member of the Duty Performance Supervision Committee under the Board of Supervisors.
Zeng Kanglin (曾康霖)	78	May 2016	External Supervisor	May 2016	Performing his duties as the chairman of the Nomination Committee under the Board of Supervisors.
Guo Tianyong (郭田勇)	48	December 2013	External Supervisor	December 2013	Performing his duties as the chairman of the Duty Performance Supervision Committee under the Board of Supervisors.

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Wu Yu (吳昱).........	50	May 2016	External Supervisor	May 2016	Performing his duties as a member of the Finance and Internal Control Risk Supervision Committee under the Board of Supervisors.
Dang Junzhang (黨均章)	53	March 2007	Employee Supervisor	March 2016	Performing his duties as the chairman of the Finance and Internal Control Risk Supervision Committee under the Board of Supervisors.
Li Yue (李躍).........	44	July 2010	Employee Supervisor	December 2012	Performing his duties as a member of the Duty Performance Supervision Committee and the Finance and Internal Control Risk Supervision Committee under the Board of Supervisors.
Song Changlin (宋長林)	51	March 2007	Employee Supervisor	March 2016	Performing his duties as a member of the Nomination Committee, the Duty Performance Supervision Committee and the Finance and Internal Control Risk Supervision Committee under the Board of Supervisors.

Chen Yuejun (陳躍軍), aged 51, has been appointed as our chairman of the Board of Supervisors since December 2012. He engaged in audit work at the PBOC from July 1985 to August 1997 and served as a deputy director of the bank division I of the audit supervision bureau and a deputy director and the director of the policy bank supervision division, the director of the policy bank supervision division I and the director of the policy bank supervision division II of the bank regulatory department I of the PBOC from August 1997 to September 2003, the director of policy bank supervision division II of the banking regulatory department III at the CBRC from September 2003 to December 2004, a deputy chief of the Sichuan regulatory bureau, a deputy director of the banking regulatory department IV and other positions at the CBRC from December 2004 to September 2008, and the director of the finance office (department level) of the People's Government of Sichuan Province from September 2008 to December 2012.

Mr. Chen obtained a doctor's degree in economics from Southwestern University of Finance and Economics in December 2011. Mr. Chen was qualified as a senior economist granted by the Senior Professional and Technical Positions in Economics Evaluating Commission of the PBOC* (中國人民銀行經濟系列高級專業技術職務評審委員會) in November 1999.

Li Yujie (李玉杰), aged 55, has been appointed as our shareholder representative Supervisor since May 2016. He successively served as a cadre of the finance division, a cadre of the discipline inspection group, an auditor (deputy section chief level) of the audit division, a secretary (section chief level) of the audit division and a deputy director of the audit division, among other roles, at the Henan Posts and Telecommunications Administration Bureau* (河南省郵電管理局) from July 1982 to

December 1998, a deputy director and the director of the audit office and the director of the audit division of the Henan Post Bureau* (河南省郵政局) (which governed the postal savings and remittance bureau) from December 1998 to May 2003, during which he also served as the chief of the Henan Kaifeng Municipal Post Bureau* (河南省開封市郵政局) (which governed the postal savings and remittance bureau). He served as the chief of the Henan Kaifeng Municipal Post Bureau* (河南省開封市郵政局) (which governed the postal savings and remittance bureau) from May 2003 to December 2003, the director of the planning and finance division of the Henan Post Bureau* (河南省郵政局) (which governed the postal savings and remittance bureau) from December 2003 to March 2007, the manager of the planning and finance department and a deputy general manager of the Henan Post Company* (河南省郵政公司) from March 2007 to May 2012, the general manager of Shanxi Post Company* (山西省郵政公司) and the chairman of Shanxi Postal Express & Logistics Company* (山西省郵政速遞物流公司) from May 2012 to September 2014. He has been serving as the general manager of finance department of China Post Group since September 2014.

Mr. Li graduated from Henan University in June 1995, majoring in accounting. Mr. Li was qualified as a senior accountant granted by the Senior Economist, Accountant and Statistician Evaluating Commission of Henan Posts and Telecommunications Administration Bureau* (河南省郵電管理局高級經濟會計統計師評審委員會) in January 1998.

Zhao Yongxiang (趙永祥), aged 52, has been appointed as our shareholder representative Supervisor since May 2016. He served as a cadre of the planning and finance division of the Hebei Posts and Telecommunications Administration Bureau* (河北省郵電管理局) from July 1986 to September 1992, a cadre of the finance operation division of the Hebei Posts and Telecommunications Administration Bureau* (河北省郵電管理局) from March 1995 to June 1996, a deputy chief of the Hebei Shijiazhuang Municipal Post Bureau* (河北省石家莊市郵政局) (which governed the postal savings and remittance bureau) from June 1996 to September 1998, a deputy director (secondment) of the planning and finance department of the State Post Bureau (which governed the postal savings and remittance bureau) from September 1998 to May 1999, a deputy chief (presiding over the work) and the chief of the Hebei Shijiazhuang Municipal Post Bureau* (河北省石家莊市郵政局) (which governed the postal savings and remittance bureau) from May 1999 to March 2006, an associate counsel of the Hebei Post Bureau* (河北省郵政局) (which governed the postal savings and remittance bureau) from March 2006 to December 2006, an assistant counsel of the Hebei Post Company* (河北省郵政公司) (which governed the postal savings and remittance bureau) from December 2006 to November 2007, a deputy general manager of the finance department of China Post Group from December 2006 to April 2014, and he has been serving as the director general of the audit bureau of China Post Group since April 2014.

Mr. Zhao obtained a bachelor's degree in engineering from Beijing Posts and Telecommunications School* (北京郵電學院) in July 1986 and a master's degree in science from Beijing University of Posts and Telecommunications in April 1995. Mr. Zhao was qualified as a senior economist granted by the personnel division of Hebei Posts and Telecommunications Bureau* (河北省郵電管理局人事處) in July 1998.

Zeng Kanglin (曾康霖), aged 78, has been appointed as our external Supervisor since May 2016. He taught at Southwestern University of Finance and Economics from September 1960 to December 2008 and held a number of positions successively, including doctoral tutor, the dean of finance department, the director of financial research institute and the chairman of academic committee, and he has been serving as the honorary chairman of Institute of Chinese Financial Studies, Southwestern University of Finance and Economics since January 2001.

Mr. Zeng graduated from Sichuan Finance and Economics College* (四川財經學院) in August 1960, majoring in finance and credit. Mr. Zeng obtained a professor qualification certificate granted by Sichuan Titles Reform Leadership Group* (四川省職稱改革工作領導小組) in May 1986. Mr. Zeng was awarded 2013 Lifelong Achievement Prize by Liu Hongru Financial Education Foundation in October 2012 and Chinese Financial Education Lifelong Contributor Prize by Chinese Museum of Finance in June 2015.

Guo Tianyong (郭田勇), aged 48, has been appointed as our external Supervisor since December 2013. He served as a cadre at the Yantai branch of the PBOC from September 1990 to September 1993. He has been working at the Central University of Finance and Economics since September 1999 and currently serves as a professor and a doctoral tutor of the School of Finance. He has also been serving as an independent non-executive director of Bank of Tianjin Co., Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 1578) since December 2014.

Mr. Guo obtained a bachelor's degree in science from Shandong University in July 1990, a master's degree in economics from Renmin University of China in July 1996 and a doctor's degree in economics from the Financial Research Institute of the PBOC* (中國人民銀行總行金融研究所) in September 1999.

Wu Yu (吳昱), aged 50, has been appointed as our external Supervisor since May 2016. He held a number of positions successively at Economic Daily Society from October 1990 to June 2015, including the chief editor of entrepreneurship weekly publication, a deputy director of chief editor office and the director of finance news department (deputy chief level). He has been serving as a senior vice president of China National Chemical Assets Corporation since July 2015, the chairman of Zhongan Runxin (Beijing) Venture Capital Investment Limited* (中安潤信(北京)創業投資有限公司) since December 2015, a deputy chairman of Beijing Central Enterprise Investment Association* (北京央企投資協會) since December 2015, and a director of Sichuan Tianyi Science & Technology Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600378), since December 2015.

Mr. Wu obtained a bachelor's degree in law from Renmin University of China since July 1988. Mr. Wu was qualified as a senior editor granted by the Senior Positions in News Qualification Evaluating Commission of Economic Daily Society* (經濟日報社新聞專業高級職務資格評審委員會) in December 2007.

Dang Junzhang (黨均章), aged 53, has been appointed as our employee Supervisor since March 2016. He also successively served as the responsible person for risk management issues and the general manager of our risk management department from March 2007 to March 2013 and has been serving as the general manager of our financial market department since March 2013. He served successively as a journalist and an editor of the journalist department of the Jiugang News Agency* (酒鋼報社) from July 1986 to March 1989, a cadre of the investigation and statistics section, the section chief of the planning and treasury section and the section chief of the investigation and statistics section of Jiayuguan branch of the PBOC* (中國人民銀行嘉峪關分行) from March 1989 to March 1997, the president of Taoyuan sub-branch and the deputy director of the board office of Lanzhou City Cooperative Bank* (蘭州城市合作銀行) from March 1997 to April 1999, and the director of board office, the director of general office, the chairman of labor union and the president, among other roles, of Lanzhou Municipal Commercial Bank* (蘭州市商業銀行) from April 1999 to March 2007.

Mr. Dang obtained a bachelor's degree in arts from Shaanxi Normal University in July 1986 and graduated from economics and management class for graduate students from Correspondence College of Party School of the Central Committee of C.P.C in July 2001. He was qualified as a senior economist granted by the personnel department of Gansu* (甘肅省人事廳) in April 2002.

Li Yue (李躍**)**, aged 44, has been appointed as our employee Supervisor since December 2012. He was also a deputy director of our party-masses work department (presiding over work) from July 2010 to May 2011 and a deputy director of our inspection and supervision department from July 2010 to May 2012, and he has been the director of our party-masses work department since May 2011 and the chairman of the institutional labor union of our head office since May 2013. From August 1995 to May 2007, he served successively as a project manager of the business development bureau and a deputy director and the director of the Beijing liaison office of Jiangsu Nantong Economic & Technological Development Area* (江蘇省南通經濟技術開發區). From June 2007 to June 2010, he was a deputy director (deputy director level) of the Beijing liaison office of Nantong People's Government of Jiangsu Province.

Mr. Li obtained a bachelor's degree in arts from Heilongjiang University in July 1995 and was qualified as a senior corporate culture officer (first class) granted by Beijing Occupational Skills Authentication Management Center* (北京市聯業技能鑒定管理中心) in September 2012.

Song Changlin (宋長林), aged 51, has been appointed as our employee Supervisor since March 2016. He also served as the responsible person for auditing issues from March 2007 to September 2007, the responsible person of our audit department from September 2007 to June 2008, the general manager of our audit department from July 2008 to July 2014, the chief of our audit office from July 2014 to November 2015, and he has been serving as the general manager of our Office of the Board of Supervisors since November 2015. He served as a cadre of the remittance division under the postal savings and remittance bureau of the Ministry of Posts and Telecommunications of the PRC* (中國郵電部郵政儲匯局) from July 1995 to July 1998, and a senior staff member and a principal staff member of the remittance division and a deputy director of the remittance business management division and the director of the audit division of the postal savings and remittance bureau of the State Post Bureau from July 1998 to March 2007. He has also been serving as a director of PSBC Consumer Finance since November 2015.

Mr. Song obtained a diploma of undergraduate in economics and management from the Party School of Beijing Municipal Committee of the Communist Party* (中共北京市委黨校) in July 2002.

SENIOR MANAGEMENT

The following table sets forth information regarding our senior management, whose functions are further illustrated below:

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Lyu Jiajin (呂家進)	48	March 2007	Executive Director, President	March 2007 December 2012	Responsible for the daily operations and management of our Bank, performing his duties as the chairman of the Social Responsibility Committee and a member of the Strategic Planning Committee, the Risk Management Committee and the Nomination and Remuneration Committee under the Board, and in charge of the General Office, the Risk Management Department and the Human Resources Department of our Bank.
Zhang Xuewen (張學文)	54	December 2012	Executive Director, Vice president	December 2012 December 2012	Performing his duties as a member of the Strategic Planning Committee, the Related Party Transactions Control Committee and the Nomination and Remuneration Committee under the Board, and in charge of the Corporate Banking Department, the Strategic Customers Department, the Investment Banking Department, the Financial Management Department and the Security Department of our Bank.
Yao Hong (姚紅)	50	March 2007	Executive Director, Vice president	May 2016 March 2007	Performing her duties as a member of the Strategic Planning Committee, the Related Party Transactions Control Committee and the Social Responsibility Committee under the Board, and in charge of the Personal Banking Department, the Credit Card Center, the International Business Department, the Credit Management Department and the Asset and Liability Department of our Bank.

Name	Age	Date of joining our Bank	Position	Date of appointment	Responsibilities
Qu Jiawen (曲家文)	53	December 2007	Vice president	December 2012	In charge of the Electronic Banking Department, the Accounting and Operation Department, the Audit Office, the Information Technology Department, the Software Research and Development Center, the Data Center, the Hefei Base Management Center and the Construction Department of our Bank.
Xu Xueming (徐學明)	49	November 2007	Vice president, Secretary to the Board	December 2012 December 2012	In charge of the Office of the Board of Directors, the Financial Market Department, the Asset Management Department, the Custodian Business Department, the Legal and Compliance Department and the Strategic Development Department of our Bank.
Shao Zhibao (邵智寶)	54	September 2007	Vice president	December 2012	In charge of the Sannong Finance Department, the Consumer Credit Department, the Small Enterprise Finance Department, the Asset Resolution Department and the Procurement Management Department of our Bank.

Lyu Jiajin is our executive Director and president. See "— Board of Directors" in this section for his biographical details.

Zhang Xuewen is our executive Director and vice president. See "— Board of Directors" in this section for his biographical details.

Yao Hong is our executive Director and vice president. See "— Board of Directors" in this section for her biographical details.

Qu Jiawen (曲家文), aged 53, has been appointed as our vice president since December 2012. Mr. Qu also served as the president of our Heilongjiang branch from December 2007 to April 2013. He served successively as a deputy director and the director of the research office, among other roles, of the Heilongjiang Posts and Telecommunications Research Institute* (黑龍江省郵電科研所) from July 1990 to September 1995, the chief engineer and a deputy chief of the Heilongjiang Daxinganling Region Posts and Telecommunications Bureau* (黑龍江省大興安嶺地區郵電局) from September 1995 to March 1997, a deputy director of the planning and construction division under the Heilongjiang Posts and Telecommunications Administration Bureau* (黑龍江省郵電管理局) from March 1997 to January 1999, a deputy director and the director of the engineering construction division, the director of the network planning and cooperation division, the director of the science and technology division, an associate chief and a deputy chief of the Heilongjiang Post Bureau* (黑龍江省郵政局) (which governed the postal savings and remittance bureau) from January 1999 to February 2007 and a deputy general manager of Heilongjiang Post Company* (黑龍江省郵政公司) (which governed the postal savings and remittance bureau) from February 2007 to December 2007. Currently, Mr. Qu also serves as a deputy chairman of the Internet Society of China and an executive council member of the Payment & Clearing Association of China.

Mr. Qu obtained a bachelor's degree in engineering from Harbin Institute of Technology in July 1986, a master's degree in engineering from Harbin Institute of Technology in March 1990 and a doctor's degree in engineering from Harbin Engineering University in July 2003. Mr. Qu was qualified as a senior engineer of professor-level granted by the Professor-level Senior Engineer Qualification Evaluating Commission of the State Post Bureau* (國家郵政局教授級高級工程師任職資格評審委員會) in June 2005. Mr. Qu was awarded the title of "Provincial Model Worker" by the People's Government of Heilongjiang Province and the title of "Expert Making Outstanding Contributions in Engineering Technology" by the State Council in September 2009 and June 2002, respectively. Mr. Qu has been entitled to special government allowance granted by the State Council since June 2002.

Xu Xueming (徐學明**)**, aged 49, has been appointed as our vice president and secretary to the Board since December 2012. He also served as the president of our Beijing branch from November 2007 to April 2013. He served successively as a staff member of the savings and remittance section, a deputy section chief of the savings and remittance section, the director of the general office and the section chief of the savings and remittance section of the Beijing Southern Post Bureau* (北京市南區郵電局) from August 1988 to April 1995, an associate chief (serving temporary position) and a deputy chief of the Beijing Postal Savings and Remittance Bureau* (北京市郵政儲匯局) from April 1995 to January 2002, the director of the public service division of the Beijing Postal Administration Bureau* (北京市郵政管理局) from January 2002 to July 2004, the chief of the Beijing Western Post Bureau* (北京市西區郵電局) from July 2004 to May 2006, a deputy chief of the Beijing Postal Administration Bureau* (北京市郵政管理局) (which governed the postal savings and remittance bureau) from May 2006 to February 2007, and a deputy general manager of the Beijing Post Company* (北京市郵政公司) (which governed the postal savings and remittance bureau) from February 2007 to November 2007. Mr. Xu has also been serving as a director of China Post Securities Company Limited since December 2014.

Mr. Xu obtained an executive master of business administration degree from Peking University in July 2012. Mr. Xu was qualified as a senior economist granted by the Professional and Technical Positions Qualification Evaluating Commission of Beijing Postal Administration Bureau* (北京市郵政管理局專業技術職務評審委員會) in June 2001.

Shao Zhibao (邵智寶**)**, aged 54, has been appointed as our vice president since December 2012, and he has served as the president of the Sannong Finance Department of our Bank since September 2016. He also served as the president of our Guangdong branch between September 2007 and April 2013. He successively severed as a staff member, a deputy section chief and the section chief of the enterprise Posts section of the planning and finance division of the Guangdong Post and Telecommunications Administration Bureau* (廣東省郵電管理局) from December 1989 to September 1997, an associate general manager and a deputy general manager of Guangdong Southern Communication Group Company* (廣東南方通信集團公司) from September 1997 to January 1999, a deputy director and the director of the planning and finance division, an associate chief and a deputy chief of the Guangdong Post Bureau* (廣東省郵政局) (which governed the postal savings and remittance bureau) from January 1999 to February 2007, and a deputy general manager of the Guangdong Post Company* (廣東省郵政公司) (which governed the postal savings and remittance bureau) from February 2007 to September 2007.

Mr. Shao obtained an executive master of business administration degree from Jinan University in June 2006. He obtained a certificate for the completion of Executive Management Science Certificate Program from Leland Stanford Junior University, US in 2005. Mr. Shao was qualified as a senior accountant granted by the human resources and education division of Guangdong Post Bureau* (廣東省郵政局人事教育處) in November 2002. He was awarded the title of "Model Worker of Guangdong Province" by the People's Government of Guangdong Province in May 2009.

Unless otherwise stated, the dates of commencement of positions of Directors, Supervisors and senior management of our Bank disclosed in this section are the dates of appointment by our Bank, which are conditional upon the fulfilment of the qualification requirements under the relevant PRC laws and regulations for the respective positions by our Directors, Supervisors or members of senior management.

Save as disclosed above, each of our Directors, Supervisors and members of senior management has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

Save as disclosed above, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business.

Save as disclosed above, none of our Directors, Supervisors and members of senior management is related to other Directors, Supervisors and members of senior management.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors and Supervisors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors and Supervisors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors and Supervisors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. Xu Xueming was appointed as one of our joint company secretaries in May 2016 and he is also a member of the senior management of our Bank. See "— Senior Management" in this Prospectus for his biographical details.

Mr. Ngai Wai Fung was appointed as one of our joint company secretaries in March 2016. Mr. Ngai is currently a director and the chief executive officer of SW Corporate Services Group Limited and had served as the president of the Hong Kong Institute of Chartered Secretaries from 2014 to 2015. Mr. Ngai possesses substantial company secretarial experience. Mr. Ngai became a fellow member of the Hong Kong Institute of Chartered Secretaries in November 2000, a fellow member of the Institute of Chartered Secretaries and Administrators in November 2000, a member of the Hong Kong Institute of Certified Public Accountants in July 2007, and a fellow member of the Association of Chartered Certified Accountants in March 2012. Mr. Ngai was appointed as a member of the Working Group on Professional Services under the Economic Development Commission by the Chief Executive of the Hong Kong Special Administrative Region and a member of the Qualifications and Examinations Board by the Hong Kong Institute of Certified Public Accountants in January 2013. Mr. Ngai has been an adjunct professor of law of Hong Kong Shue Yan University since September 2012, and was appointed as a Finance Expert Consultant of the MOF in June 2016.

Mr. Ngai obtained a master's degree in business administration from Andrews University of Michigan in the United States in August 1992, a bachelor's degree (Honours) in law from the University of Wolverhampton in the United Kingdom in October 1994, a master's degree in corporate finance from the Hong Kong Polytechnic University in November 2002, and a doctoral degree in finance from the Shanghai University of Finance and Economics in June 2011.

BOARD COMMITTEES

In accordance with the relevant PRC laws and regulations, the Articles and the corporate governance practice prescribed in the Listing Rules, the Board has established six committees, namely the Strategic Planning Committee, the Related Party Transactions Control Committee, the Audit Committee, the Risk Management Committee, the Nomination and Remuneration Committee and the Social Responsibility Committee.

Strategic Planning Committee

The Board has established a Strategic Planning Committee with written terms of reference. The Strategic Planning Committee consists of six Directors, namely Mr. Li Guohua, Mr. Lyu Jiajin, Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Ma Weihua and Mr. Yang Songtang. Mr. Li Guohua currently serves as the chairman of the Strategic Planning Committee. The primary duties of the Strategic Planning Committee include:

- reviewing, and making recommendations to the Board on, our business objectives, general strategic development plan and specific strategic development plans;

- evaluating factors which may affect our strategic development plans and their implementation, in light of domestic and foreign economic and financial conditions and market development trends, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;

- evaluating the general development conditions relating to various financial businesses, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;

- reviewing our strategic capital allocation and objectives of asset and liability management, and making recommendations to the Board;

- reviewing our business development plans, major investment and financing proposals submitted by senior management, and making recommendations to the Board;

- reviewing plans for establishment or adjustment of our internal bodies, tier-1 branches, direct branches or other direct affiliates, or overseas affiliates, and making recommendations to the Board;

- supervising and inspecting the implementation of our business plans and investment plans;

- reviewing proposals for our annual financial budget and final accounts submitted by senior management, and making recommendations to the Board;

- reviewing our plans for establishment of a legal entity or merger and acquisition proposals, and making recommendations to the Board;

- reviewing our matters on external investment, acquisition of assets, disposal of assets, asset write-off and provision of guarantees, and making recommendations to the Board;

- evaluating our corporate governance and making recommendations to the Board;

- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

Related Party Transactions Control Committee

The Board has established a Related Party Transactions Control Committee with written terms of reference. The Related Party Transactions Control Committee consists of five Directors, namely Mr. Ma Weihua, Mr. Zhang Xuewen, Ms. Yao Hong, Ms. Bi Zhonghua and Mr. Fu Tingmei. Mr. Ma Weihua currently serves as the chairman of the Related Party Transactions Control Committee. The primary duties of the Related Party Transactions Control Committee include:

- managing matters on our related party transactions, reviewing the management system for related party transactions, supervising their implementation and making recommendations to the Board;

- verifying our related parties, reporting to the Board and Board of Supervisors, and informing our relevant staff in a timely manner;

- reviewing major related party transactions or related party transactions subject to approval by the Board or Shareholders' general meeting, and submitting to the Board or the Shareholders' general meeting through the Board for approval;

- to the extent authorized by the Board, reviewing and approving our related party transactions and other matters in relation to such related party transactions, and receiving the record of general related party transactions for filing;

- reviewing matters in relation to the disclosure of information on our major related party transactions;

- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

Audit Committee

The Board has established an Audit Committee with written terms of reference. The Audit Committee consists of five Directors, namely Ms. Bi Zhonghua, Mr. Ma Weihua, Mr. Gan Peizhong, Mr. Lai Weiwen and Mr. Chin Hung I David. Ms. Bi Zhonghua currently serves as the chairwoman of the Audit Committee. The primary duties of the Audit Committee include:

- supervising our internal control, and inspecting and evaluating the compliance of our core business activities, relevant rules and major operating activities;

- reviewing our major financial and accounting policies and their implementation, supervising our financial operations and financial control, and examining our accounting policies, financial condition and financial reporting procedures;

- reviewing our basic audit management systems, rules and regulations, medium and long-term audit plans and annual work plans, and making recommendations to the Board, supervising the implementation of our basic audit management systems, rules and regulations and plans;

- reviewing, or under authorization, approving the annual budget of our internal audit department to ensure the independence of audit work, and making recommendations to the Board;

- supervising and evaluating the work of our internal audit department;

- proposing, and submitting to the Board for review, the engagement or dismissal of an accounting firm, and supervising and evaluating the work of the accounting firm to ensure the independence and effectiveness of its work;

- reviewing our annual audit report and other specific opinions issued by external auditors, our audited annual financial statements, other financial reports and other financial information to be disclosed, and reporting judgments on the truthfulness, completeness and accuracy of our audited financial statements and financial information for submission to the Board of Directors for approval;

- facilitating communications between our internal audit department and the accounting firm;

- reviewing the annual audit plans, scope of work and important audit rules of the accounting firm;

- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

Risk Management Committee

The Board has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of five Directors, namely Mr. Yang Songtang, Mr. Lyu Jiajin, Mr. Gan Peizhong, Mr. Tang Jian and Mr. Lai Weiwen. Mr. Yang Songtang currently serves as the chairman of the Risk Management Committee. The primary duties of the Risk Management Committee include:

- examining and revising our risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management framework and major procedures and systems for risk management according to our general strategic development plan, and supervising and evaluating their implementation and effectiveness, and making recommendations to the Board;

- reviewing plans for risk capital allocation, and making recommendations to the Board; developing objectives of capital adequacy ratio management to be submitted to the Board for review, and reviewing and supervising the implementation of our capital planning;

- monitoring senior management to take necessary steps to effectively identify, evaluate, monitor and control/mitigate risks; supervising the control, management and duty performance of senior management in relation to our credit, market, operational risks and other risks and making recommendations to the Board;

- listening to the risk management report submitted by senior management, regularly evaluating our risks and management, risk tolerance and taking control of the general conditions, comprehensiveness and effectiveness of our risk management and making recommendations to the Board;

- evaluating, and making recommendations for improvement of the structure, working procedures and performance of the risk management department;

- making recommendations on improving our risk management and internal control from the perspective of our Bank and overall situation;

- reviewing major risk management issues or transactions that are beyond the authority of the president and that are submitted by the president to this committee for review, and making recommendations to the Board;

- supervising our legal and compliance management; reviewing our legal and compliance policies as well as relevant basic management systems; expressing opinions thereon to be submitted to the Board for review and approval; and listening to and reviewing the implementation of our legal and compliance policies;

- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee with written terms of reference. The Nomination and Remuneration Committee consists of five Directors, namely Mr. Gan Peizhong, Mr. Lyu Jiajin, Mr. Zhang Xuewen, Ms. Bi Zhonghua and Mr. Fu Tingmei. Mr. Gan Peizhong currently serves as the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee include:

- performing annual review on the structure, size and composition of the Board, and making recommendations to the Board;

- developing the standards and procedures for the appointment of Directors, chairman and members of each Board committee and of senior management members and submitting to the Board for review;

- performing preliminary review on the qualifications and requirements of candidates for Directors and senior management, and making recommendations to the Board;

- nominating candidates for the chairman and members of other Board committees (except for the chairman of the Strategic Planning Committee);

- developing the measures on duty performance evaluation for Directors and performance assessment measures for senior management, as well as compensation measures or plans for Directors, Supervisors and senior management (in case of the compensation measures for Supervisors, opinions shall be solicited from the Board of Supervisors) to be submitted to the Board for review;

- organizing duty performance evaluation on Directors and performance assessment on the senior management, and making recommendations on the compensation distribution for Directors and senior management to be submitted to the Board for review;

- making recommendations on the compensation distribution plan for Supervisors according to the performance assessment by the Board of Supervisors to be submitted to the Board for review;

- reviewing our major human resources and compensation policies and basic systems submitted by the senior management, submitting to the Board for approval, and supervising the implementation of the relevant policies and basic management systems;

- developing the training plans for senior management members and key backup talents to be submitted to the Board for review;

- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

Social Responsibility Committee

The Board has established a Social Responsibility Committee with written terms of reference. The Social Responsibility Committee consists of five Directors, namely Mr. Lyu Jiajin, Ms. Yao Hong, Ms. Bi Zhonghua, Mr. Tang Jian and Mr. Chin Hung I David. Mr. Lyu Jiajin currently serves as the chairman of the Social Responsibility Committee. The primary duties of the Social Responsibility Committee include:

- developing our social responsibility strategies and policies that are consistent with our development strategies and actual situation to be implemented upon submission to and approval by the Board;

- developing our basic management systems for social responsibility to be implemented upon submission to and approval by the Board;

- supervising, inspecting and evaluating the implementation and effectiveness of our strategies, policies, basic management systems, etc., for social responsibility, and making recommendations to the Board;

- reviewing our credit extend policies relating to environment and sustainable development, and making recommendations to the Board;

- supervising and evaluating the comprehensiveness, promptness and effectiveness of our consumer protection work as well as duty performance of senior management, as authorized by the Board;

- approving matters in relation to external donation, as authorized by the Board;

- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The total remunerations received by Directors, Supervisors and senior management, including fees, paid basic salaries, allowance and benefits in kind, contribution to pension schemes and bonus were RMB6.86 million, RMB11.20 million, RMB12.52 million and RMB5.67 million for each of the three years ended December 31, 2015 and the three months ended March 31, 2016, respectively. Under the current arrangements in effect, the total remuneration to be paid to Directors and Supervisors, including fees, paid basic salaries, allowance and benefits in kind, contribution to pension schemes and bonus are expected to be approximately RMB9.50 million for the year ending December 31, 2016.

The total remunerations received by the five highest paid individuals including paid basic salaries, allowance and benefits in kind, contribution to pension schemes and bonus were approximately RMB5.10 million, RMB6.03 million, RMB7.34 million and RMB3.63 million for each of the three years ended December 31, 2015 and the three months ended March 31, 2016, respectively.

Save as disclosed in "Appendix I — Accountant's Report — II Notes to The Financial Information — 10. Emoluments of directors and supervisors," there were no amounts paid during the Relevant Periods to Directors, Supervisors or the five highest paid individuals in connection with their retirement from employment or as compensation for loss of office with our Bank, or as inducement to join or upon joining our Bank, or otherwise for services rendered by him in connection with the promotion or formation of our Bank, and there was no other arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the Relevant Periods.

See "Appendix I — Accountant's Report — II Notes to The Financial Information — 10. Emoluments of directors and supervisors" for further details.

COMPLIANCE ADVISOR

We have agreed to appoint China International Capital Corporation Hong Kong Securities Limited to be our compliance advisor upon listing in accordance with Rules 3A.19 and 19A.05 of the Listing Rules. We have entered into the compliance advisor's agreement with the compliance advisor, the salient terms of which are as follows:

- we will appoint China International Capital Corporation Hong Kong Securities Limited as our compliance advisor for the purposes of Rules 3A.19 and 19A.05 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

- the compliance advisor shall provide us with certain services, including providing us with proper guidance and advices as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and providing advices to our Bank on the continuing requirements under the Listing Rules and applicable laws and regulations;

- the compliance advisor shall, as soon as reasonably practicable, inform us of any amendment or supplement to the Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and

- the compliance advisor shall serve as our principal channel of communication with the Hong Kong Stock Exchange.

So far as our Directors are aware, assuming the Over-allotment Option is not exercised, the following persons will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Number and class of securities	Approximate percentage of shareholding in the total share capital of our Bank after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering
		(%)	(%)
China Post Group[1]	55,877,600,310 Domestic Shares	69.23	91.30
UBS[1][2]	3,423,340,000 H Shares	4.24	17.55
CSIC Investment One Limited[1][3]	3,423,340,000 H Shares	4.24	17.55
Shanghai International Port Group (HK) Co., Limited[1][4]	3,349,490,000 H Shares	4.15	17.17
China Life[1][5]	3,341,900,000 Domestic Shares	4.14	5.46
Victory Global Group Limited[1][6][7]	1,573,123,000 H Shares	1.95	8.06
NSSF[1]	1,144,853,000 H Shares	1.42	5.87

(1) Legal and beneficial owner.

(2) UBS Group AG holds 100% shares of UBS and is therefore deemed to be interested in the H Shares held by UBS under the SFO.

(3) China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (H.K.) Co., Limited holds 60% and 40% of the interests of CSIC Investment One Limited, respectively. China Shipbuilding & Offshore International Co., Ltd. holds 100% of the interests of China Shipbuilding & Offshore International (H.K.) Co., Limited, and China Shipbuilding Industry Corporation directly holds 53.41% of the interests of China Shipbuilding & Offshore International Co., Ltd. and 100% of the interests of China Shipbuilding Capital Limited. They are therefore deemed to be interested in the H Shares held by CSIC Investment One Limited under the SFO.

(4) Shanghai International Port (Group) Co., Ltd. holds 100% of the equity interest in Shanghai International Port Group (HK) Co., Limited, and State-owned Assets Supervision and Administriation Commission of Shanghai Municipal Government is the controlling shareholder of Shanghai International Port (Group) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Shanghai International Port Group (HK) Co., Limited.

(5) China Life Insurance (Group) Company, an enterprise owned by the whole people, holds approximately 68.37% shares of China Life and is therefore deemed to be interested in the Domestic Shares held by China Life under the SFO.

(6) HNA Capital Group Co., Ltd. holds 100% of the equity interests in Victory Global Group Limited. HNA Group Co., Ltd. holds 100% of the interests of HNA Capital Group Co., Ltd. Hainan Traffic Administration Holding Co.,

Ltd.*(海南交管控股有限公司) holds 70% of the interests of HNA Group Co., Ltd. Shengtang Development (Yangpu) Co., Ltd.*(盛唐發展(洋浦)有限公司) holds 50% of the interests of Hainan Traffic Administration Holding Co., Ltd. Hainan Province CiHang Foundation* (海南省慈航公益基金會) holds 65% of the interests of Shengtang Development (Yangpu) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Victory Global Group Limited.

(7) The number of H Shares and percentage of shareholding of Victory Global Group Limited are calculated based on the Offer Price of HK$4.93 (being the mid-point of the Offer Price range set out in this prospectus).

So far as our Directors are aware, assuming the Over-allotment Option is fully exercised, the following persons will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Number and class of securities	Approximate percentage of shareholding in the total share capital of our Bank after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering
		(%)	(%)
China Post Group[(1)]	55,709,240,308 Domestic Shares	67.50	91.28
UBS[(1)(2)]	3,423,340,000 H Shares	4.15	15.93
CSIC Investment One Limited[(1)(3)]	3,423,340,000 H Shares	4.15	15.93
Shanghai International Port Group (HK) Co., Limited[(1)(4)]	3,349,490,000 H Shares	4.06	15.58
China Life[(1)(5)]	3,341,900,000 Domestic Shares	4.05	5.48
Victory Global Group Limited[(1)(6)(7)]	1,573,123,000 H Shares	1.91	7.32
NSSF[(1)]	1,316,581,000 H Shares	1.60	6.13

(1) Legal and beneficial owner.

(2) UBS Group AG holds 100% shares of UBS and is therefore deemed to be interested in the H Shares held by UBS under the SFO.

(3) China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (H.K.) Co., Limited holds 60% and 40% of the interests of CSIC Investment One Limited, respectively. China Shipbuilding & Offshore International Co., Ltd. holds 100% of the interests of China Shipbuilding & Offshore International (H.K.) Co., Limited, and China Shipbuilding Industry Corporation directly holds 53.41% of the interests of China Shipbuilding & Offshore International Co., Ltd. and 100% of the interests of China Shipbuilding Capital Limited. They are therefore deemed to be interested in the H Shares held by CSIC Investment One Limited under the SFO.

(4) Shanghai International Port (Group) Co., Ltd. holds 100% of the equity interest in Shanghai International Port Group (HK) Co., Limited, and State-owned Assets Supervision and Administriation Commission of Shanghai Municipal Government is the controlling shareholder of Shanghai International Port (Group) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Shanghai International Port Group (HK) Co., Limited.

(5) China Life Insurance (Group) Company, an enterprise owned by the whole people, holds approximately 68.37% shares of China Life and is therefore deemed to be interested in the Domestic Shares held by China Life under the SFO.

(6) HNA Capital Group Co., Ltd. holds 100% of the equity interests in Victory Global Group Limited. HNA Group Co., Ltd. holds 100% of the interests of HNA Capital Group Co., Ltd. Hainan Traffic Administration Holding Co., Ltd.*(海南交管控股有限公司) holds 70% of the interests of HNA Group Co., Ltd. Shengtang Development (Yangpu) Co., Ltd.*(盛唐發展(洋浦)有限公司) holds 50% of the interests of Hainan Traffic Administration Holding Co., Ltd., Hainan Province CiHang Foundation* (海南省慈航公益基金會) holds 65% of the interests of Shengtang Development (Yangpu) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Victory Global Group Limited.

(7) The number of H Shares and percentage of shareholding of Victory Global Group Limited are calculated based on the Offer Price of HK$4.93 (being the mid-point of the Offer Price range set out in this prospectus).

This section presents certain information regarding our share capital before and upon completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, our share capital, comprising 68,604,000,000 Shares, was categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
Domestic Shares in issue	62,349,520,000	90.88
Unlisted Foreign Shares in issue	6,254,480,000	9.12
Total	68,604,000,000	100.00

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately following completion of the Global Offering, conversion of the unlisted Foreign Shares as well as the Domestic Shares for transfer to NSSF into H Shares, and assuming that the Over-allotment Option is not exercised, our share capital would be categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
Domestic Shares in issue	61,204,667,000	75.83
H Shares converted from unlisted Foreign Shares	6,254,480,000	7.75
H Shares converted from Domestic Shares in issue and transferred to the NSSF	1,144,853,000	1.42
H Shares to be issued under the Global Offering	12,106,588,000	15.00
Total	80,710,588,000	100.00

Immediately following completion of the Global Offering, conversion of the unlisted Foreign Shares as well as the Domestic Shares for transfer to NSSF into H Shares, and assuming the Over-allotment Option is fully exercised, our share capital would be categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
Domestic Shares in issue	61,032,939,000	73.96
H Shares converted from unlisted Foreign Shares	6,254,480,000	7.58
H Shares converted from Domestic Shares in issue and transferred to the NSSF	1,316,581,000	1.60
H Shares to be issued under the Global Offering	13,922,576,000	16.87
Total	82,526,576,000	100.00

SHARE CLASSES

Upon completion of the Global Offering and conversion of the unlisted Foreign Shares into H Shares, we would have two classes of Shares: Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in our share capital. However, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and other persons who are entitled to hold H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC.

Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association. The differences between the two classes of shares and 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 out in the Articles of Association and summarized in "Appendix V — Summary of Articles of Association." The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in "Appendix V — Summary of Articles of Association." However, the procedures for approval by separate classes of Shareholders shall not apply in the following circumstances: (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued Domestic Shares and H Shares, (ii) where our plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval by the relevant regulatory authorities of the PRC, including the CSRC, and (iii) where the conversion of Domestic Shares for listing and trading on the Hong Kong Stock Exchange as H Shares has been approved by the securities approval authorities authorized by the State Council, including the CSRC.

Except for the differences above, Domestic Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions to be declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be calculated in Renminbi and paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. In addition to cash, dividends may be distributed in the form of Shares.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Upon completion of the Global Offering and conversion of unlisted Foreign Shares held by our existing foreign Shareholders, we will have two classes of ordinary shares, namely H Shares and Domestic Shares. None of our Domestic Shares is listed or traded on any stock exchange. The holders of Domestic Shares may convert their Domestic Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have been approved by the securities regulatory authorities of the State Council, including the CSRC. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of our Domestic Shares into H Shares as disclosed in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it will not require such prior application for listing at the time of our initial listing in Hong Kong.

No class shareholder voting is required for the listing and trading of the converted Shares on the Hong Kong Stock Exchange. Any application for listing of the converted Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share registrar to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our H Share registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Shares certificates, and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

See "Risk Factors — Risks Relating to the Global Offering — Future sales (or perceived sales) or conversion of our securities in the public market (including any future conversion of our Domestic Shares into H Shares) could adversely affect the market price of our H Shares and our ability to raise capital in the future, or may result in dilution of your shareholding."

So far as our Directors are aware, none of our Shareholders currently propose to convert any of their Domestic Shares into H Shares, except for the conversion of Domestic Shares to be transferred to the NSSF.

TRANSFER OF STATE-OWNED SHARES

In accordance with the Provisional Measures for the Administration of Reduction of State Share Holdings to Raise Funds for Social Security* (關於減持國有股籌集社會保障資金管理暫行辦法) and other relevant rules, our state-owned Shareholders China Post Group and China Telecom are required to transfer in total to the NSSF, in proportion to each of their respective shareholdings in our Bank, such number of Shares equivalent to approximately 9.46% of the number of the Offer Shares, being 1,144,853,000 Shares (before the exercise of the Over-allotment Option), and an additional 171,728,000 Shares (upon the exercise of the Over-allotment Option in full), or pay to the NSSF the equivalent cash at the Offer Price under the Global Offering, or a combination of both. According to the approval of the state-owned Shares transfer plan, China Post Group will transfer 1,122,399,690 Shares to the NSSF (before the exercise of the Over-allotment Option), and an additional 168,360,002 Shares (upon the exercise of the Over-allotment Option in full), China Telecom will transfer 22,453,310 Shares to the NSSF (before the exercise of the Over-allotment Option), and an additional 3,367,998 Shares (upon the exercise of the Over-allotment Option in full). At the time of listing of our H Shares on the Hong Kong Stock Exchange, such Shares will be converted into H Shares on a one-for-one basis. Neither we nor any of these state-owned Shareholders will receive any proceeds from the transfer of such Domestic Shares to the NSSF.

The transfer of state-owned Shares held by the above state-owned Shareholders to the NSSF was approved by the MOF on June 22, 2016 and by NSSF on September 2, 2016. The conversion of those Domestic Shares into H Shares was approved by the CSRC on August 15, 2016. We have been advised by Haiwen & Partners, our PRC legal advisors, that the transfer and the conversion described above have been approved by the relevant PRC authorities and are legal under PRC law.

CONVERSION OF UNLISTED FOREIGN SHARES HELD BY THE OVERSEAS INVESTORS

Upon completion of the Global Offering, 6,254,480,000 unlisted Foreign Shares in aggregate held by UBS, CPPIB, JPMorgan CICII, FMPL, IFC and DBS Bank will be converted into H Shares on a one-for-one basis. The conversion of those unlisted Foreign Shares into H Shares was approved by the CSRC on August 15, 2016 and an application has been made to the Listing Committee for such H Shares to be listed on the Hong Kong Stock Exchange.

TRANSFER OF SHARES ISSUED PRIOR TO THE GLOBAL OFFERING

Pursuant to the PRC Company Law, our Shares issued prior to the Listing shall not be transferred within one year from the Listing Date. However, our Shares to be transferred by certain state-owned Shareholders to the NSSF in accordance with the relevant PRC regulations regarding the transfer of state-owned shares as described above are not subject to such restrictions.

See "Underwriting — Undertaking Arrangements and Expenses — The Hong Kong Public Offering — Undertakings pursuant to the Listing Rules and the Hong Kong Underwriting Agreement — (B) Undertakings by China Post Group as our controlling shareholder" for details of the lock-up undertaking given by China Post Group pursuant to Rule 10.07 of the Listing Rules.

According to the investor rights agreements signed with the Strategic Investors[1], Strategic Investor Shareholders and their related parties shall not transfer the Covered Securities (as defined in the investor rights agreements) to any person during the lock-up period. See "Our Strategic Investors — Strategic Investment — Rights and Obligations of the Strategic Investor Shareholders — Transfer Restrictions" for details on transfer restrictions of the Strategic Investor Shareholders and their lock-up period.

1 JPMorgan and JPMorgan CICII jointly entered into share subscription agreement and investor rights agreement with us.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the following investors (the "Cornerstone Investors", each a "Cornerstone Investor"), pursuant to which the Cornerstone Investors have agreed to subscribe for in aggregate (i) 6,772,830,000 Offer Shares and (ii) such number of additional Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for an amount of US$1,547 million at the Offer Price (the "Cornerstone Placing"). Based on the Offer Price of HK$4.68 (being the minimum price of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 9,336,463,000, representing approximately (i) 11.57% of the Shares in issue upon the completion of the Global Offering and 77.12% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 11.31% of the Shares in issue upon completion of the Global Offering and 67.06% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Based on the Offer Price of HK$5.18 (being the maximum price of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 9,089,009,000, representing approximately (i) 11.26% of the Shares in issue upon the completion of the Global Offering and 75.07% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 11.01% of the Shares in issue upon completion of the Global Offering and 65.28% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

Each of the Cornerstone Investors is an independent third party, is not our connected person (as defined under the Listing Rules), and is not an existing shareholder of the Bank. In addition, each of the Cornerstone Investors is independent of each other, and makes independent investment decisions. Details of the actual number of the Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by the Bank on or around September 27, 2016.

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 H Shares in issue and will be counted towards the public float of the Bank. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective cornerstone investment agreements. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in the Bank, nor will any of the Cornerstone Investors become a substantial shareholder (as defined under the Listing Rules) of the Bank. The Cornerstone Investors do not have any preferential rights compared with other public Shareholders in the respective cornerstone investment agreements. Pursuant to paragraph 4.2 of Practice Note 18 to the Listing Rules, in the event of over-subscription under the Hong Kong Public Offering, the number of International Offer Shares may be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering. In such event, the number of Offer Shares to be subscribed by the Cornerstone Investors may be reduced to satisfy the public demands under the Hong Kong Public Offering. The Bank has applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules. See "Structure of the Global Offering" for further details.

CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing:

		Based on the Offer Price of HK$4.93 (being the mid-point of the Offer Price range)			
Cornerstone Investor	Investment Amount /Number of H Shares to be subscribed for by the Cornerstone Investors	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is fully exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is fully exercised)
CSIC Investment One Limited	3,423,340,000 H Shares	4.24%	4.15%	17.55%	15.93%
Shanghai International Port Group (HK) Co., Limited..........................	3,349,490,000 H Shares	4.15%	4.06%	17.17%	15.58%
Victory Global Group Limited	US$1,000.00 million	1.95%	1.91%	8.06%	7.32%
State Grid Overseas Investment Limited	US$300.00 million[1]	0.58%	0.57%	2.40%	2.17%
China Chengtong Holdings Group Limited................	US$150.00 million	0.29%	0.29%	1.21%	1.10%
Great Wall Pan Asia International Investment Co., Limited...................	US$100.00 million	0.19%	0.19%	0.81%	0.73%

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

[1] Including brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%.

CSIC Investment One Limited

CSIC Investment One Limited ("CIOL") has agreed to subscribe for 3,423,340,000 H Shares at the Offer Price, representing approximately 4.24% of the Shares, and approximately 17.55% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

CIOL is a company jointly established by China Shipbuilding Capital Limited (owning 60% of the interests) and China Shipbuilding & Offshore International (H.K.) Co., Limited (owning 40% of the interests) and incorporated in the British Virgin Islands. As the overseas investment and financing platform of China Shipbuilding Industry Corporation (the "CSIC"), the principal businesses of China Shipbuilding Capital Limited include industrial investment, investment consulting, financial leasing and advisory business for the aforesaid businesses. China Shipbuilding & Offshore International (H.K.) Co., Limited is an important platform of CSIC in terms of international trade and cooperation, and its principal businesses include merchant ships trading, offshore projects trading, marine equipment trading, technology trading, non-marine products trading, financial leasing, international engineering and various other businesses. CSIC is the controlling shareholder of China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (H.K.) Co., Limited. CSIC is a mega state-owned enterprise, a PRC government-authorized investment institution and an asset management entity. It has been listed as a Fortune Global 500 enterprise for six consecutive years. CSIC has under its wing renowned shipbuilding and ship-repairing enterprises and research and development institutions.

CIOL and/or its affiliates may obtain external financing by entering into (i) a bilateral loan facility with China Construction Bank Corporation Hong Kong Branch ("CCB"); (ii) a bilateral loan facility with Bank of Communications Co., Ltd. Hong Kong Branch ("BOCOM") and (iii) bilateral loan agreements with ICBC International Finance Limited ("ICBCI Finance") and with certain of its affiliates, to finance its subscription of H Shares. ICBCI Finance and its affiliates involved in the aforesaid financing are under the control of Industrial and Commercial Bank of China Limited, which indirectly controls ICBC International Capital Limited and ICBC International Securities Limited. The loans, if obtained, will be on normal commercial terms after arm's length negotiations. All or some of the H Shares to be subscribed for by CIOL may be charged to CCB and BOCOM as security for their respective bilateral loan facility. Under the financing arrangements, CIOL may be required to repay the loan before its maturity following the occurrence of certain customary events of default. CCB and BOCOM may therefore have the right to enforce their security interest in the H Shares subject to such charge at any time upon the occurrence of certain customary events of default, save that each of CCB and BOCOM undertakes to our Bank not to dispose of the collateral shares until after the date falling six months after Listing Date.

Shanghai International Port Group (HK) Co., Limited

Shanghai International Port Group (HK) Co., Limited ("SIPG HK") has agreed to subscribe for 3,349,490,000 H Shares at the Offer Price, representing approximately 4.15% of the Shares, and approximately 17.17% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

SIPG HK is a company incorporated in Hong Kong wholly owned by Shanghai International Port (Group) Co., Ltd. ("SIPG"). SIPG HK is principally engaged in port services, online shopping center and investment holding in the PRC. SIPG is a company incorporated under the laws of the PRC (Shanghai Stock Exchange (stock code: 600018)) and is the operator of the public terminals in the Port of Shanghai in the PRC. SIPG is principally engaged in port-related businesses, the main business segments of which include container, bulk cargo, port logistics and port services. As of December 31, 2015, SIPG was, directly and indirectly, held as to approximately 61.07% by the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, which was the controlling shareholder and de facto controller of SIPG.

Victory Global Group Limited

Victory Global Group Limited ("Victory Global") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$1,000.00 million at the Offer Price. Assuming an Offer Price of HK$4.93, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Victory Global would subscribe for would be 1,573,123,000, representing approximately 1.95% of the Shares, and approximately 8.06% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Victory Global is a wholly owned subsidiary of HNA Capital Group Co., Ltd. and serves as an investment platform for its parent. Victory Global is a business company registered in the British Virgin Islands, and its ultimate parent is HNA Group Co., Ltd. Victory Global's principal business is investment and consulting.

Victory Global may obtain external financing from UBS (or any of its affiliates) (the "Lender") to finance its subscription of H Shares. The loan(s), if obtained, will be bona fide commercial loan(s) on arm's length terms (the "Loan(s)"). Victory Global may charge, pledge, mortgage or otherwise create security over the H Shares it subscribed for in favour of Lender as security for the Loan(s). Lender may only enforce by way of foreclosure or appropriation during the six months after the Listing Date (the "Lock up Period") (and without any restriction on the ways of enforcement after the end of the Lock up Period) the security so created following the occurrence of any event of default (howsoever described) in accordance with the terms and clauses of the Loan(s). The Lender undertakes to our Bank not to sell any collateral shares until after the Lock up Period.

State Grid Overseas Investment Limited

State Grid Overseas Investment Limited ("SGOI") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$300.00 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) at the Offer Price. Assuming an Offer Price of HK$4.93, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that SGOI would subscribe for would be 467,228,000, representing approximately 0.58% of the Shares, and approximately 2.40% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

SGOI is a wholly-owned subsidiary of State Grid Corporation of China ("SGCC") and serves as its comprehensive platform of overseas investment and financing. SGCC is the largest grid company in China and the biggest utility company in the world. SGCC focuses on the construction and operation of power grids covering 26 provinces, autonomous regions and municipalities.

China Chengtong Holdings Group Limited

China Chengtong Holdings Group Limited ("China Chengtong") has agreed to subscribe for, by itself or through its wholly-owned subsidiary, such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$150.00 million at the Offer Price. Assuming an Offer Price of HK$4.93, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that China Chengtong would subscribe for would be 235,968,000, representing approximately 0.29% of the Shares, and approximately 1.21% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

China Chengtong is a large enterprise group under the supervision of the State-owned Asset Supervision and Administration Commission of the State Council with total assets of approximately RMB100 billion, and belongs to the first batch of standard board-of-directors enterprises in the transformation of central enterprises authenticated by the State-owned Asset Supervision and Administration Commission of the State Council. It serves as a significant operating platform, contributing to structural and distributional adjustments and strategic recombination of central enterprises. The main businesses of China Chengtong are shareholding management, asset management, capital operation, financial service, equity investment, initiating establishment of fund and fund management company, etc. and it has been recognized as a state-owned capital operating company pilot since 2016.

China Chengtong owns more than a hundred subsidiaries in China, which include: (i) three companies listed on the Shanghai Stock Exchange, namely CMST Development Co., Ltd. (Stock Code: 600787), Guangdong Guanhao High-Tech Co., Ltd. (Stock Code: 600433) and Yueyang Forest & Paper Co., Ltd. (Stock Code: 600963); (ii) one company listed on the Main Board of the Hong Kong Stock Exchange, namely China Chengtong Development Group Co., Ltd. (Stock Code: 00217); and (iii) two companies listed on the Shenzhen Stock Exchange, namely Foshan Huaxin Packaging Co., Ltd. (Stock Code: 200986) and MCC Meili Paper Industry Co., Ltd. (Stock Code: 000815).

Great Wall Pan Asia International Investment Co., Limited

Great Wall Pan Asia International Investment Co., Limited ("Great Wall") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares), which may be purchased with an aggregate amount of US$100.00 million at the Offer Price. Assuming an Offer Price of HK$4.93, being the mid-point of the Offer Price range set in this prospectus, the total number of H Shares that Great Wall would subscribe for would be 157,312,000, representing approximately 0.19% of the Shares, and approximately 0.81% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Great Wall is a wholly owned subsidiary of China Great Wall Asset Management Corporation ("GWAMCC") and serves as an investment platform for its parent. Great Wall is a company registered in Hong Kong. GWAMCC mainly conducts asset management, investment, credit and investment banking businesses.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

(1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such agreements;

(2) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;

(3) the Listing Committee having granted approval for the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked;

(4) the Offer Price having been agreed between the Bank and the Underwriters; and

(5) no Laws (as defined in the relevant cornerstone investment agreement) shall have been enacted or promulgated to prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or under the relevant cornerstone investment agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Bank and the Underwriters' Representative, it will not, whether directly or indirectly, at any time during a period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the shares subscribed for by it under the relevant cornerstone investment agreement and any shares or other securities of the Bank derived therefrom (the "Relevant Shares") or any legal or beneficial interest in the Relevant Shares, or enter into any transactions, directly or indirectly, with the same economic effect as any transaction for such disposal of Relevant Shares or interest, or agree or contract to, or publicly announce any intention to enter into, any transaction for such disposal of the Relevant Shares or interest or any transactions with the same economic effect (as the case may be).

Each Cornerstone Investor may transfer the H Shares so subscribed for in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as transfer to a wholly owned subsidiary of such Cornerstone Investor, provided that prior to such transfer, such wholly owned subsidiary undertakes, and such Cornerstone Investor undertakes to procure, that such wholly owned subsidiary agrees to be bound by such Cornerstone Investor's obligations under the relevant cornerstone investment agreement and subject to the restrictions on disposals imposed on the Cornerstone Investor.

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes included in "Appendix I — Accountant's Report" to this prospectus. Our historical financial information has been prepared in accordance with IFRS.

ASSETS

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our total assets amounted to RMB5,574.5 billion, RMB6,298.3 billion, RMB7,296.4 billion and RMB7,707.6 billion, respectively. The principal components of our assets consist of (i) loans and advances to customers (net), and (ii) investment securities and other financial assets (net), representing 33.8% and 37.8%, respectively, of our total assets as of March 31, 2016. The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Gross loans and advances to customers[1]	1,492,605	26.8%	1,875,748	29.8%	2,471,853	33.9%	2,665,754	34.6%
Allowance for impairment losses	(29,345)	(0.5)	(43,681)	(0.7)	(59,258)	(0.8)	(61,643)	(0.8)
Loans to customers, net	1,463,260	26.3	1,832,067	29.1	2,412,595	33.1	2,604,111	33.8
Investment securities and other financial assets, net[2]	1,277,441	22.9	1,580,222	25.1	2,986,667	40.9	2,909,815	37.8
Cash and deposits with central bank	1,225,708	22.0	1,389,759	22.1	1,131,231	15.5	1,329,816	17.3
Deposits with banks and other financial institutions	1,044,604	18.7	730,217	11.6	324,137	4.4	194,782	2.6
Placements with banks and other financial institutions[3]	93,482	1.7	113,754	1.8	200,485	2.8	257,721	3.3
Financial assets held under resale agreements	387,187	6.9	557,523	8.9	148,868	2.0	303,954	3.9
Other assets[4]	82,769	1.5	94,783	1.4	92,381	1.3	107,435	1.3
Total assets	**5,574,451**	**100.0%**	**6,298,325**	**100.0%**	**7,296,364**	**100.0%**	**7,707,634**	**100.0%**

(1) For ease of reference, in this prospectus, we refer to loans and advances to customers as "loans" and "loans to customers."

(2) Investment securities and other financial assets consist of investment classified as receivables, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. Investment securities and other financial assets are net of the related allowance for impairment losses of nil, RMB2,272 million, RMB3,940 million and RMB3,245 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

(3) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB933 million, RMB1,093 million, RMB1,642 million and RMB124 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

(4) Consists primarily of derivative financial assets, property and equipment, interest receivable, accounts receivable and temporary payments, deferred tax assets and other assets. Other assets are net of the related allowance for impairment losses on accounts receivable and temporary payments of RMB413 million, RMB447 million, RMB231 million and RMB246 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

Loans to Customers

During the Track Record Period, loans to customers were an important component of our assets. Our loans to customers, net of allowance for impairment losses, accounted for 26.3%, 29.1%, 33.1% and 33.8% of our total assets as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. We provide a broad range of loan products, substantially all of which are denominated in Renminbi, to our customers through our broad network of directly-operated outlets. The following discussion is based on our gross loans to customers before taking into account the related allowance for impairment losses, rather than our net loans to customers. Our loans to customers are reported net of the allowance for impairment losses in our statements of financial position.

Our gross loans to customers increased by 25.7% from RMB1,492.6 billion as of December 31, 2013 to RMB1,875.7 billion as of December 31, 2014, which further increased by 31.8% to RMB2,471.9 billion as of December 31, 2015. As of March 31, 2016, our gross loans to customers amounted to RMB2,665.8 billion. The overall growth in our loan portfolio was primarily due to (i) our continued efforts to develop personal loan business, (ii) the stable growth in our corporate loans as a result of our moderately increased lending to the key national infrastructure projects and to our valued corporate customers, and (iii) the rapid growth of our discounted bills, reflecting an increase in customer demand for discounted bills and the continued growth of our discounted bill business.

Distribution of Loans by Business Line

Our loans to customers consist of corporate loans, discounted bills and personal loans. For a description of the loan products we offer, see “Business — Our Principal Businesses.” The following table sets forth, as of the dates indicated, our loans to customers by business line.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	708,818	47.5%	804,316	42.9%	980,980	39.7%	1,028,404	38.6%
Discounted bills	50,609	3.4	108,366	5.8	268,303	10.9	339,267	12.7
Personal loans	733,178	49.1	963,066	51.3	1,222,570	49.4	1,298,083	48.7
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**

Corporate Loans

Corporate loans accounted for 47.5%, 42.9%, 39.7% and 38.6% of our total loans to customers as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

Distribution of Corporate Loans by Product Type

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by product type. For details of each type of our corporate loans, see "Business — Our Principal Businesses — Corporate Banking Business — Main Products and Services — Corporate Loans."

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Working capital loans	204,551	28.8%	241,022	30.0%	329,816	33.6%	343,510	33.4%
Fixed asset loans	488,095	68.9	510,238	63.4	551,483	56.2	562,272	54.7
Trade finance loans	14,950	2.1	51,978	6.5	98,750	10.1	121,733	11.8
Others[(1)]	1,222	0.2	1,078	0.1	931	0.1	889	0.1
Total corporate loans	**708,818**	**100.0%**	**804,316**	**100.0%**	**980,980**	**100.0%**	**1,028,404**	**100.0%**

(1) Consists of a loan asset portfolio we purchased from a PRC commercial bank in 2010.

Our corporate loans increased by 13.5% from RMB708.8 billion as of December 31, 2013 to RMB804.3 billion as of December 31, 2014, which further increased by 22.0% to RMB981.0 billion as of December 31, 2015. As of March 31, 2016, our corporate loans amounted to RMB1,028.4 billion. The overall increase in our corporate loans from December 31, 2013 to March 31, 2016 was primarily attributable to our continued efforts to develop our corporate loan business, in particular extending more loans to key national infrastructure projects, corporate customers with a leading position in their industries, key sectors which are encouraged by governmental policies, and sectors in connection with transformation and upgrade of traditional industries and urbanization.

Our working capital loans increased by 17.8% from RMB204.6 billion as of December 31, 2013 to RMB241.0 billion as of December 31, 2014, which further increased by 36.8% to RMB329.8 billion as of December 31, 2015. As of March 31, 2016, our working capital loans amounted to RMB343.5 billion. The overall increase in our working capital loans from December 31, 2013 to March 31, 2016 was primarily attributable to the increased demand from our corporate customers for working capital loans.

Our fixed asset loans increased by 4.5% from RMB488.1 billion as of December 31, 2013 to RMB510.2 billion as of December 31, 2014, which further increased by 8.1% to RMB551.5 billion as of December 31, 2015. As of March 31, 2016, our fixed asset loans amounted to RMB562.3 billion. The overall increase in our fixed asset loans from December 31, 2013 to March 31, 2016 reflected that we moderately grew our fixed asset loans while meeting corporate customers' demand for such loan products.

Our trade finance loans increased significantly from RMB15.0 billion as of December 31, 2013 to RMB52.0 billion as of December 31, 2014, which further increased by 90.0% to RMB98.8 billion as of December 31, 2015. As of March 31, 2016, our trade finance loans amounted to RMB121.7 billion. The rapid increase in our trade finance loans from December 31, 2013 to March 31, 2016 was primarily due to our increased efforts to develop trade finance business to meet corporate customers' demand.

Distribution of Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by industry.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Transportation, storage and postal services	337,320	47.6%	345,867	43.0%	356,956	36.4%	361,480	35.1%
Manufacturing	98,732	13.9	117,350	14.6	152,310	15.5	162,236	15.8
Production and supply of electricity, gas and water	101,758	14.4	106,866	13.3	134,484	13.7	136,123	13.2
Financial services	4,848	0.7	44,604	5.5	86,576	8.8	109,191	10.6
Wholesale and retail	49,580	7.0	50,611	6.3	58,722	6.0	59,178	5.8
Construction	15,133	2.1	27,532	3.4	40,255	4.1	45,294	4.4
Real estate	20,064	2.8	27,297	3.4	41,113	4.2	40,936	4.0
Mining	22,953	3.2	25,756	3.2	41,712	4.3	39,035	3.8
Management of water conservancy, environment and public facilities	42,944	6.1	35,738	4.4	31,727	3.2	32,485	3.2
Leasing and commercial services	2,486	0.4	2,935	0.4	10,974	1.1	12,254	1.2
Agriculture, forestry, animal husbandry and fishery	4,329	0.6	7,194	0.9	9,276	0.9	9,123	0.9
Information transmission, computer services and software	1,914	0.3	3,659	0.5	4,479	0.5	6,349	0.6
Hotels and catering	3,928	0.6	3,918	0.5	3,481	0.4	3,550	0.3
Residential services and other services	1,469	0.2	2,134	0.3	2,043	0.2	1,966	0.2
Culture, sports and entertainment	654	0.0	1,469	0.2	1,701	0.2	1,735	0.2
Others[1]	706	0.1	1,386	0.1	5,171	0.5	7,469	0.7
Total corporate loans	**708,818**	**100.0%**	**804,316**	**100.0%**	**980,980**	**100.0%**	**1,028,404**	**100.0%**

(1) Consists primarily of public administration and social organizations, education, scientific studies and technology services, and health, social security and social welfare.

The aggregate amount of loans to our corporate borrowers in (i) transportation, storage and postal services, (ii) manufacturing, (iii) production and supply of electricity, gas and water, (iv) financial services, and (v) wholesale and retail, being the top five industries in terms of our aggregate corporate loan exposure as of March 31, 2016, collectively represented 83.6%, 82.7%, 80.4% and 80.5% of our total corporate loans as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

Our loans to corporate customers in the transportation, storage and postal services industry accounted for 47.6%, 43.0%, 36.4% and 35.1% of our total corporate loans as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Our loans to the transportation, storage and postal services industry consist primarily of loans extended to China Railway Corporation and its subsidiaries and loans extended to local toll highway construction projects. Our loans to the transportation, storage and postal services industry increased by 2.5% from RMB337.3 billion as of December 31, 2013 to RMB345.9 billion as of December 31, 2014, which further increased by 3.2% to RMB357.0 billion as of December 31, 2015. As of March 31, 2016, our loans to the transportation, storage and postal services industry amounted to RMB361.5 billion. The moderate growth in our loans to the transportation, storage and postal services industry from December 31, 2013 to March 31, 2016 was primarily attributable to our continual loan extension to railway and highway construction projects.

Our loans to corporate customers in the manufacturing industry accounted for 13.9%, 14.6%, 15.5% and 15.8% of our total corporate loans as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Our loans to the manufacturing industry increased by 18.9% from RMB98.7 billion as of December 31, 2013 to RMB117.4 billion as of December 31, 2014, which further increased by 29.8% to RMB152.3 billion as of December 31, 2015. As of March 31, 2016, our loans to the manufacturing industry amounted to RMB162.2 billion. The increase in our loans to the manufacturing industry from December 31, 2013 to March 31, 2016 was primarily attributable to our increased credit support for quality corporate customers in the manufacturing industry.

Our loans to corporate customers in the production and supply of electricity, gas and water industry accounted for 14.4%, 13.3%, 13.7% and 13.2% of our total corporate loans as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Our loans to the production and supply of electricity, gas and water industry increased by 5.0% from RMB101.8 billion as of December 31, 2013 to RMB106.9 billion as of December 31, 2014, which further increased by 25.8% to RMB134.5 billion as of December 31, 2015. As of March 31, 2016, our loans to the production and supply of electricity, gas and water industry amounted to RMB136.1 billion. The increase in our loans to the production and supply of electricity, gas and water industry from December 31, 2013 to March 31, 2016 reflected our increased lending to large electric power construction projects and clean energy projects.

Distribution of Corporate Loans by Size of Corporate Borrowers

The following table sets forth, as of the dates indicated, distribution of our corporate loans by size of corporate borrowers.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Large-sized enterprises[1]	478,151	67.5%	541,658	67.4%	663,428	67.7%	706,503	68.7%
Medium-sized enterprises[1]	65,259	9.2	71,966	8.9	89,397	9.1	100,158	9.7
Small-sized enterprises[1]	134,908	19.0	149,044	18.5	166,131	16.9	159,607	15.5
Micro-sized enterprises[1]	30,500	4.3	41,648	5.2	62,024	6.3	62,136	6.1
Total corporate loans	**708,818**	**100.0%**	**804,316**	**100.0%**	**980,980**	**100.0%**	**1,028,404**	**100.0%**

(1) The classification criteria for large-sized, medium-sized, small-sized and micro-sized enterprises are set forth in the Classification Standards of Small and Medium Enterprises.

Our loans to small-sized enterprises increased by 10.5% from RMB134.9 billion as of December 31, 2013 to RMB149.0 billion as of December 31, 2014, which further increased by 11.5% to RMB166.1 billion as of December 31, 2015, primarily reflecting our strategy to maintain a moderate growth of our loans to small-sized enterprises. Our loans to small-sized enterprises decreased by 3.9% from RMB166.1 billion as of December 31, 2015 to RMB159.6 billion as of March 31, 2016, primarily because we controlled the portfolio of our loans to small-sized enterprises in a prudent manner based on borrowers' credit risk profiles and reduced our loans to high-risk industries and customers in the context of the slowdown in PRC economic growth.

Distribution of Corporate Loans by Exposure Size

The following table sets forth, as of the dates indicated, distribution of our corporate loan exposure to single account by size.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB10 million	110,067	15.6%	119,676	14.9%	119,675	12.2%	120,814	11.7%
Over RMB10 million to RMB50 million (inclusive)	35,503	5.0	44,040	5.5	48,450	4.9	50,971	5.0
Over RMB50 million to RMB100 million (inclusive)	6,623	0.9	12,503	1.6	17,604	1.8	20,787	2.0
Over RMB100 million to RMB500 million (inclusive)	65,474	9.2	100,235	12.4	142,184	14.5	151,121	14.7
Over RMB500 million	491,151	69.3	527,862	65.6	653,067	66.6	684,711	66.6
Total corporate loans	**708,818**	**100.0%**	**804,316**	**100.0%**	**980,980**	**100.0%**	**1,028,404**	**100.0%**

Discounted Bills

Our discounted bills increased by 114.1% from RMB50.6 billion as of December 31, 2013 to RMB108.4 billion as of December 31, 2014, which further increased by 147.6% to RMB268.3 billion as of December 31, 2015. As of March 31, 2016, our discounted bills amounted to RMB339.3 billion. The increase in discounted bills from December 31, 2013 to March 31, 2016 was primarily due to (i) an increase in the number of our corporate customers attributable to our diversified product portfolio and improved service capabilities, and (ii) increased customers' demand for discounted bills.

Personal Loans

Our personal loans accounted for 49.1%, 51.3%, 49.4% and 48.7% of our total loans to customers as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

Our personal loans increased by 31.4% from RMB733.2 billion as of December 31, 2013 to RMB963.1 billion as of December 31, 2014, which further increased by 26.9% to RMB1,222.6 billion as of December 31, 2015. As of March 31, 2016, our personal loans amounted to RMB1,298.1 billion. The continued increase in our personal loans from December 31, 2013 to March 31, 2016 was primarily due to the rapid growth of our personal loans as we implement our retail banking strategies.

Distribution of Personal Loans by Product Type

The table below sets forth, as of the dates indicated, the distribution of our personal loans by product type.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Consumer loans:								
Residential mortgage loans	297,846	40.6%	402,668	41.8%	577,256	47.2%	640,359	49.3%
Other consumer loans..................	55,053	7.5	108,247	11.2	159,683	13.1	169,949	13.1
Personal business loans	237,486	32.4	286,971	29.8	304,930	24.9	303,460	23.4
Micro loans	123,719	16.9	134,477	14.0	136,207	11.2	138,876	10.7
Credit card overdrafts and others......	19,074	2.6	30,703	3.2	44,494	3.6	45,439	3.5
Total personal loans...................	**733,178**	**100.0%**	**963,066**	**100.0%**	**1,222,570**	**100.0%**	**1,298,083**	**100.0%**

During the Track Record Period, residential mortgage loans were the largest component of our personal loans, representing 40.6%, 41.8%, 47.2% and 49.3% of our personal loans as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Our residential mortgage loans increased by 35.2% from RMB297.8 billion as of December 31, 2013 to RMB402.7 billion as of December 31, 2014, which further increased by 43.4% to RMB577.3 billion as of December 31, 2015. As of March 31, 2016, our residential mortgage loans amounted to RMB640.4 billion. The continued increase in our residential mortgage loans from December 31, 2013 to March 31, 2016 reflected (i) increasing market demand for residential mortgage loans, and (ii) our continued efforts to grow our residential mortgage loan portfolio which brings us stable retail customer base and returns.

Other consumer loans increased by 96.6% from RMB55.1 billion as of December 31, 2013 to RMB108.2 billion as of December 31, 2014, which further increased by 47.5% to RMB159.7 billion as of December 31, 2015. As of March 31, 2016, our other consumer loans amounted to RMB169.9 billion. The increase in other consumer loans from December 31, 2013 to March 31, 2016 reflected that we continued to develop consumer loans to meet various consumers' demand through diversifying consumer loan products and optimizing the structure of our consumer loan portfolio.

Personal business loans increased by 20.8% from RMB237.5 billion as of December 31, 2013 to RMB287.0 billion as of December 31, 2014, which further increased by 6.3% to RMB304.9 billion as of December 31, 2015. The increase in our personal business loans from December 31, 2013 to December 31, 2015 was primarily attributable to our increased lending to small and micro business owners (including individual business households) to meet their financing needs. As of March 31, 2016, our personal business loans amounted to RMB303.5 billion.

Micro loans increased by 8.7% from RMB123.7 billion as of December 31, 2013 to RMB134.5 billion as of December 31, 2014, which further increased by 1.3% to RMB136.2 billion as of December 31, 2015. As of March 31, 2016, our micro loans amounted to RMB138.9 billion. The moderate increase in our micro loans from December 31, 2013 to March 31, 2016 was primarily due to our strategy to maintain a moderate growth in micro loan products while continually diversifying such products to meet the financing demand of new-type agricultural operators (including farm households with large-scale specialized operations, family farms and farmers' cooperatives).

Our credit card overdrafts and other personal loans increased by 61.0% from RMB19.1 billion as of December 31, 2013 to RMB30.7 billion as of December 31, 2014, which further increased by 44.9% to RMB44.5 billion as of December 31, 2015. As of March 31, 2016, our credit card overdrafts and other personal loans amounted to RMB45.4 billion. The increase in our credit card overdrafts and other personal loans from December 31, 2013 to March 31, 2016 was primarily attributable to increases in both the number of credit cards issued and the transaction volume of credit cards as a result of our increased efforts to market our credit card business and to diversify our credit card functions to meet the increasing customers' demand.

Distribution of Personal Loans by Exposure Size

The following table sets forth, as of the dates indicated, distribution of our personal loans to borrowers by single loan size.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB50,000	77,078	10.5%	73,291	7.6%	77,995	6.4%	78,445	6.0%
Over RMB50,000 to RMB100,000 (inclusive)	87,406	11.9	99,211	10.3	109,173	8.9	112,160	8.6
Over RMB100,000 to RMB250,000 (inclusive)	162,152	22.1	225,728	23.4	275,762	22.6	289,011	22.3
Over RMB250,000 to RMB500,000 (inclusive)	206,799	28.3	289,160	30.0	389,352	31.8	414,260	32.0
Over RMB500,000 to RMB1,000,000 (inclusive)	118,215	16.1	152,875	15.9	201,929	16.5	219,587	16.9
Over RMB1,000,000	81,528	11.1	122,801	12.8	168,359	13.8	184,620	14.2
Total personal loans	**733,178**	**100.0%**	**963,066**	**100.0%**	**1,222,570**	**100.0%**	**1,298,083**	**100.0%**

Distribution of Loans by Geographical Region

We classify loans geographically based on the location of the branch or sub-branch that originated the loans. Our branches and sub-branches generally originate loans to borrowers located in the same geographical regions. The following table sets forth, at the dates indicated, the distribution of our loans by geographical region.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head Office[1]	468,891	31.5%	275,015	14.7%	287,598	11.6%	289,432	10.9%
Yangtze River Delta	203,389	13.6	287,397	15.3	396,183	16.0	450,338	16.9
Pearl River Delta	118,398	7.9	198,738	10.6	271,485	11.0	291,451	10.9
Bohai Rim	158,776	10.7	268,761	14.3	363,593	14.7	385,649	14.5
Central China	225,702	15.1	358,344	19.1	508,398	20.6	554,571	20.7
Western China	208,011	13.9	343,195	18.3	458,173	18.5	490,019	18.4
Northeastern China	109,438	7.3	144,298	7.7	186,423	7.6	204,294	7.7
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**

(1) Loans originated by our head office primarily consist of (i) special finance loans we historically extended to specific enterprises based on approval of PRC regulatory authorities, and (ii) credit card overdrafts.

Loans originated by our head office decreased by 41.3% from RMB468.9 billion as of December 31, 2013 to RMB275.0 billion as of December 31, 2014. The percentage of the aggregate loans originated by our head office to our total loans to customers decreased from 31.5% as of December 31, 2013 to 14.7% as of December 31, 2014. The decrease in loans originated by our head office primarily reflected that (i) some loans became due, and (ii) our head office transferred a portion of corporate loans to branches based on the geographical locations of borrowers to better serve our customers. Loans originated by our head office increased by 4.6% from RMB275.0 billion as of December 31, 2014 to RMB287.6 billion as of December 31, 2015, primarily due to an increase in credit card overdrafts booked at the credit card center at our head office. The percentage of the loans originated by our head office to our total loans to customers decreased from 14.7% as of December 31, 2014 to 11.6% as of December 31, 2015. As of March 31, 2016, loans originated by our head office amounted to RMB289.4 billion, representing 10.9% of our total loans to customers.

Our loans originated in the economically developed regions, including Yangtze River Delta, Pearl River Delta and Bohai Rim regions, continued to grow. Loans to customers originated in these regions increased by 57.1% from RMB480.6 billion as of December 31, 2013 to RMB754.9 billion as of December 31, 2014, and further increased by 36.6% to RMB1,031.3 billion as of December 31, 2015. As of March 31, 2016, the aggregate amount of loans originated in these three regions was RMB1,127.4 billion. As of December 31, 2013, 2014 and 2015 and March 31, 2016, loans to customers originated in these regions in aggregate represented 32.2%, 40.2%, 41.7% and 42.3% of our total loans to customers, respectively. Loans originated in these regions increased, both in absolute terms and as a percentage of our total loans, primarily due to (i) our increased efforts to develop business in the economically developed regions, and (ii) the transfer of certain loans from our head office to some branches in these regions.

Our loans originated in Central China, Western China and Northeastern China continued to grow. Loans to customers originated in these regions increased by 55.7% from RMB543.2 billion as of December 31, 2013 to RMB845.8 billion as of December 31, 2014, and further increased by 36.3% to RMB1,153.0 billion as of December 31, 2015. As of March 31, 2016, the aggregate amount of loans originated in these three regions was RMB1,248.9 billion. As of December 31, 2013, 2014 and 2015 and March 31, 2016, loans to customers originated in these regions in aggregate represented 36.3%, 45.1%, 46.7% and 46.8% of our total loans to customers, respectively. Loans originated in these regions increased, both in absolute terms and as a percentage of our total loans, primarily due to (i) our increased credit support to these regions in response to the PRC government's strategies of Rise of Central China, Development of Western China and Revitalization of the Old Industrial Bases in Northeastern China to meet the financial needs in these regions, and (ii) the transfer of certain loans from our head office to some branches in these regions.

Distribution of Loans by Collateral

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our loans to customers secured by mortgages, pledges or guarantees in aggregate amounted to RMB1,012.2 billion, RMB1,249.9 billion, RMB1,545.4 billion and RMB1,631.0 billion, respectively, representing 67.8%, 66.6%, 62.5% and 61.2% of our total loans to customers, respectively. The following table sets forth, at the dates indicated, the distribution of our loans to customers by type of collateral.

	As of December 31,						**As of March 31,**	
	2013		**2014**		**2015**		**2016**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(in millions of RMB, except percentages)							
Loans secured by mortgages(1)(2)	728,981	48.8%	943,430	50.2%	1,183,088	47.8%	1,254,608	47.1%
Loans secured by pledges(1)(3)	115,267	7.7	115,639	6.2	144,737	5.9	154,425	5.8
Guaranteed loans(1)	167,997	11.3	190,848	10.2	217,566	8.8	221,970	8.3
Unsecured loans	429,751	28.8	517,465	27.6	658,159	26.6	695,484	26.1
Discounted bills	50,609	3.4	108,366	5.8	268,303	10.9	339,267	12.7
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**

(1) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.

(2) Represents security interests in certain assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

(3) Represents security interests in certain assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our unsecured loans amounted to RMB429.8 billion, RMB517.5 billion, RMB658.2 billion and RMB695.5 billion, respectively, representing 28.8%, 27.6%, 26.6% and 26.1% of our total loans to customers, respectively. Our unsecured loans are granted to customers with relatively high credit ratings based on our internal credit risk rating system.

Borrower Concentration

In accordance with the applicable PRC banking laws and regulations, we are subject to a lending limit of 10% of our regulatory capital to any single borrower. The following table sets forth, as of the date indicated, our loan balances to the ten largest single borrowers, all of which were classified as normal as of that date.

	As of March 31, 2016				
	Industry	**Amount**	**% of total loans**	**% of regulatory capital(1)**	**Loan classification**
	(in millions of RMB, except percentages)				
Borrower A	Transportation, storage and postal services	243,104	9.1%	72.80%	Normal
Borrower B	Production and supply of electricity, gas and water	17,000	0.6	5.09	Normal
Borrower C	Management of water conservancy, environment and public facilities	15,000	0.6	4.49	Normal
Borrower D	Transportation, storage and postal services	6,500	0.2	1.95	Normal
Borrower E............	Manufacturing	6,330	0.2	1.90	Normal
Borrower F............	Mining	5,985	0.2	1.79	Normal
Borrower G	Financial services	4,880	0.2	1.46	Normal
Borrower H	Transportation, storage and postal services	4,811	0.2	1.44	Normal
Borrower I.............	Transportation, storage and postal services	4,446	0.2	1.33	Normal
Borrower J	Real estate	4,341	0.2	1.30	Normal
Total		**312,397**	**11.7%**	**93.55%**	

(1) Represents loan balances as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administrative Measures (Provisional) and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital as of March 31, 2016, see "Financial Information — Capital Resources — Capital Adequacy."

In accordance with applicable PRC banking guidelines, the aggregate amount of credit extended to any group borrower may not exceed 15% of our regulatory capital. The following table sets forth ten largest group borrowers in terms of credit extended as of the date indicated. As of the same date, all of the loans we extended to these group borrowers were performing loans.

	As of March 31, 2016		
	Industry	**Amount**	**% of regulatory capital**[1]
	(in millions of RMB, except percentages)		
Group A	Transportation, storage and postal services	248,161	74.32%
Group B	Production and supply of electricity, gas and water	21,558	6.46
Group C	Production and supply of electricity, gas and water	20,317	6.08
Group D	Production and supply of electricity, gas and water	20,135	6.03
Group E	Production and supply of electricity, gas and water	19,297	5.78
Group F	Production and supply of electricity, gas and water	17,510	5.24
Group G	Production and supply of electricity, gas and water	17,073	5.11
Group H	Production and supply of electricity, gas and water	16,982	5.09
Group I	Production and supply of electricity, gas and water	15,160	4.54
Group J	Production and supply of electricity, gas and water	11,934	3.57
Total		**408,127**	**122.22%**

(1) Represents credit exposure as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administrative Measures (Provisional) and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital as of March 31, 2016, see "Financial Information — Capital Resources — Capital Adequacy."

China Railway Corporation is our largest single borrower and largest group borrower. As of March 31, 2016, our credit exposure to China Railway Corporation was RMB248.2 billion, representing 74.32% of our regulatory capital, and the outstanding loan balance with China Railway Corporation was RMB243.1 billion, representing 72.80% of our regulatory capital. The credit we extended to China Railway Corporation includes RMB240.0 billion which we historically provided to it and was approved by the CBRC. After deduction of the RMB240.0 billion, our credit exposure and balance of loans to China Railway Corporation represented 2.44% and 0.93% of our regulatory capital, respectively, as of March 31, 2016.

Maturity Profile of Loan Portfolio

The following table sets forth, as of the date indicated, the distribution of our loan products by remaining maturity.

	As of March 31, 2016					
	Due in 3 months or less	Due in over 3 months up to 12 months	Due in over 1 year up to 5 years	Due in more than 5 years	Overdue[(1)]/ Repayable on demand	Total
	(in millions of RMB)					
Corporate loans						
Working capital loans	68,768	246,423	19,589	—	8,730	343,510
Fixed asset loans	33,077	58,339	184,612	286,047	197	562,272
Trade finance loans	35,929	78,324	6,286	96	1,098	121,733
Others[(2)]	22	65	346	410	46	889
Subtotal	137,796	383,151	210,833	286,553	10,071	1,028,404
Discounted bills	174,684	164,488	—	—	95	339,267
Personal loans						
Consumer loans:						
Residential mortgage loans	7,620	23,227	131,062	476,006	2,444	640,359
Other consumer loans	11,844	37,272	68,189	51,547	1,097	169,949
Personal business loans	45,657	142,458	108,198	176	6,971	303,460
Micro loans	32,051	82,088	18,958	194	5,585	138,876
Credit card overdrafts and others	37,759	4,283	2,324	—	1,073	45,439
Subtotal	134,931	289,328	328,731	527,923	17,170	1,298,803
Total	**447,411**	**836,967**	**539,564**	**814,476**	**27,336**	**2,665,754**

(1) Includes loans on which principal or interest is overdue for one day or more. For loans that are repayable in installments, the total outstanding amount of loan is stated as overdue.

(2) Consists of a loan asset portfolio we purchased from a PRC commercial bank in 2010.

As of March 31, 2016, our corporate loans with remaining maturities of up to one year amounted to RMB520.9 billion, representing 50.7% of our total corporate loans, consisting primarily of working capital loans with tenors of generally no longer than one year. As of March 31, 2016, our corporate loans with remaining maturities of more than one year amounted to RMB497.4 billion, representing 48.4% of our total corporate loans, consisting primarily of fixed asset loans with tenors of more than one year. Our personal loans with remaining maturities of more than five years amounted to RMB527.9 billion as of March 31, 2016, representing 40.7% of our total personal loans, consisting primarily of residential mortgage loans which are generally of longer tenors.

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) to allow commercial banks in China to set interest rates based on commercial considerations. During the Track Record Period, we adopted a dynamic approach to repricing our loans with floating interest rates and closely reviewed our loan repricing policies. Currently, our loans to customers with contract maturities up to one year are of fixed interest rates or floating interest rates based on the circumstances of these loans, while our loans to customers with contract maturities of over one year are generally of floating interest rates which will be reset on an annual, half-year, quarterly or monthly basis or upon the date on which the PBOC adjusts the benchmark interest rates.

Interest rates on residential mortgage loans have been set at no less than 70% of the PBOC benchmark lending rates since October 27, 2008. Interest rates on residential mortgage loans to second-home buyers who have not fully repaid their residential loans are required to be no less than 110% of the PBOC benchmark lending rate since April 17, 2010. On July 20, 2013, the PBOC removed the minimum interest rate requirement for new loans provided by commercial banks, except that the minimum interest rates for new residential mortgage loans remained at 70% of the PBOC benchmark lending rates. See "Supervision and Regulation — Pricing of Products and Services."

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loan portfolio through our loan classification system. We classify all of our loans using a five-category loan classification system, in accordance with guidelines issued by the CBRC. See "Supervision and Regulation — Loan Classification, Allowance and Write-Offs — Loan Classification."

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria that are derived from the CBRC guidelines. These criteria are designed to assess the likelihood of full repayment by the borrower of the principal and interest on the loan on a timely basis.

Corporate Loans (Excluding Corporate Loans to Small Enterprises) and Discounted Bills

Our loan classification criteria for corporate loans (excluding corporate loans to small enterprises) and discounted bills focus on a number of factors, including (i) the borrower's ability to repay the loan, based on such factors as the borrower's cash flows, financial condition and other non-financial factors affecting the borrower's repayment ability; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the profitability of the project financed by our loans; (v) the net realizable value of any collateral and the prospect for support from any guarantor; and (vi) the enforceability of our claims. The key factors for each corporate loan classification are listed below. This is not intended to be a complete list of all factors taken into account in classifying our corporate loans and discounted bills. For the purpose of internal credit risk management, we have adopted an internal 12-grade loan classification system, which refined the five-category loan classification, to classify our corporate loans (excluding corporate loans to small enterprises) to companies and government agencies. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Risk Management for Corporate Loans (Excluding Corporate Loans to Small Enterprises) — Loan Disbursement and Post-loan Management — Loan Classification."

Normal. Loans are classified as normal only if the borrower can honor the terms of its loans and there is no sufficient reason to doubt its ability to repay principal and interest in full on a timely basis.

Special Mention. Loans should be classified as special mention if the borrower is able to repay its loans currently, although repayment may be adversely affected by specific factors, such as:

- the principal of or interest on the loan is overdue;
- the borrower is suspected to seek to evade its repayment obligations to banks through mergers and acquisitions, reorganization or spin-offs in bad faith, although principal and interest payments are still current;
- the borrower has used the loan proceeds for the purpose inconsistent with the intended use of the proceeds;
- the borrower is unwilling to repay the loan and does not actively cooperate with us;
- there have been material and adverse changes to the borrower's substantial shareholders, affiliated enterprises or management;
- the restructuring of the borrower or the guarantor, such as spin-offs, mergers and acquisitions, leasing, contracting, joint venture arrangements and shareholding reform, adversely affects our credit claims;
- changes in the external environment, such as macro-economy, the market and the borrower's industry, adversely affect the borrower's business operations and repayment ability; or
- there has been a decrease in the value of the collateral, or a downgrade of the guarantor's credit rating or an adverse change in the guarantor's business operations.

Substandard. Loans should be classified as substandard if the borrower's ability to repay its loans is in question as it cannot rely entirely on normal operating revenues to repay principal and interest, and losses (up to 30% of the outstanding loan balance) may ensue even when collateral or guarantees are invoked. In general, the following characteristics are important factors to be considered when loans are classified as substandard:

- the borrower evades its debt obligations owed to banks through mergers and acquisitions or spin-offs in bad faith and the repayment of principal or interest is overdue;

- the borrower has to sell or dispose major fixed 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 loan;

- the borrower has overdue loans or interest payments with us, and has NPLs with other banks;

- the borrower obtained the loan through improper means such as concealing facts or providing false statements; or

- the underlying project progresses slowly, with a delay of over one year of construction schedule, and the borrower has not achieved the goals set in the project evaluation as of the time of loan classification.

Doubtful. Loans should be classified as doubtful if the borrower cannot repay principal and interest in full and significant losses (ranging from 30% to 90% (inclusive) of the outstanding loan balance) will need to be recognized even when collateral or guarantees are invoked. In general, the following characteristics are important factors to be considered when loans are classified as doubtful:

- the borrower is in the liquidation process;

- it is difficult for the borrower to fulfill its obligation to banks after its restructuring, or it is unable to repay principal and interest in a normal way even if it fulfills such obligation;

- the operations of the borrower have been suspended for at least half a year, and the loss on the loan is estimated to be above 30% of the outstanding loan balance even when collateral or guarantees are invoked;

- the borrower is insolvent, is experiencing operational losses with payment difficulty and cannot obtain additional funding, and the loss on the loan is estimated to be above 30% of the outstanding loan balance even when collateral or guarantees are invoked; or

- the borrower is involved in material adverse incidents, has been ordered to cease operations by the competent government authorities, or the project underlying a fixed asset loan is in a state of cessation with no prospect of resumption, and the loss on the loan is estimated to be above 30% of the outstanding loan balance even when collateral or guarantees are invoked.

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. The following characteristics are important factors to be considered when loans are classified as loss:

- we are unable to recover the loans after the borrower has been penalized in accordance with the law for its violation of criminal laws and there is neither sufficient property to repay the loan nor any other debtor who is liable under the same loan;

- we are unable to recover the loans after liquidation of the borrower's assets and exercise of recourse to the guarantor as serious natural disaster or unforeseen events have resulted in significant losses of the borrower;

- we are unable to recover the loans after we file a lawsuit against the borrower and guarantor due to the borrower's and guarantor's failure to repay debts that are due and the foreclosure procedure was imposed against the borrower or the guarantor while the court ordered the foreclosure procedure to cease because the borrower or the guarantor has no assets to be foreclosed;

- we are unable to recover the loans after we have filed lawsuits against the borrower and guarantor, but the court has dismissed the lawsuits or ruled to exempt the debtor from all (or part) of the liabilities for the ineligibility or death of the borrower and guarantor; or the court ruled against us due to the loss of such certificates of rights as loan contracts and guarantee contracts or the expiration of the statute of limitations; or

- we are unable to recover the loan with an outstanding balance of less than RMB500,000, despite recovery efforts lasting more than one year.

Corporate Loans to Small Enterprises

Corporate loans to small enterprises refer to loans we extend to companies classified as medium-sized, small-sized and micro-sized enterprises under the Classification Standards of Small and Medium Enterprises with a maximum credit line of RMB30 million for a single customer. In applying the loan classification criteria to small enterprise loans, we primarily consider 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 loans to small enterprises by time for which payments of principal or interest are overdue and type of collateral.

		Overdue by					
Type of collateral	**Current**	**1-30 days**	**31-90 days**	**91-180 days**	**181-360 days**	**361-720 days**	**No less than 721 days**
Loans secured by mortgages	Normal	Special mention	Special mention	Substandard	Doubtful	Doubtful	Loss
Loans secured by pledges	Normal	Special mention	Special mention	Substandard	Doubtful	Doubtful	Loss
Guaranteed loans	Normal	Special mention	Substandard	Doubtful	Doubtful	Loss	Loss
Unsecured loans	Normal	Special mention	Substandard	Doubtful	Doubtful	Loss	Loss

Personal 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 collateral.

The following table sets forth the five-category classification of micro loans by time for which payments of principal or interest are overdue and type of collateral.

		Overdue by					
Type of Collateral	**Current**	**1-10 days**	**11-30 days**	**31-90 days**	**91-180 days**	**181-360 days**	**No less than 361 days**
Loans secured by mortgages............	Normal	Special mention	Special mention	Special mention	Substandard	Doubtful	Loss
Loans secured by pledges................	Normal	Special mention	Special mention	Special mention	Substandard	Doubtful	Loss
Guaranteed loans......	Normal	Special mention	Substandard	Doubtful	Doubtful	Loss	Loss
Unsecured loans	Normal	Special mention	Substandard	Doubtful	Doubtful	Loss	Loss

The following table sets forth the five-category classification of personal loans other than micro loans by time for which payments of principal or interest are overdue and type of collateral.

		Overdue by				
Type of Collateral	**Current**	**1-30 days**	**31-90 days**	**91-180 days**	**181-360 days**	**No less than 361 days**
Loans secured by mortgages	Normal	Special mention	Special mention	Substandard	Doubtful	Loss
Loans secured by pledges	Normal	Special mention	Special mention	Substandard	Doubtful	Loss
Guaranteed loans	Normal	Special mention	Substandard	Doubtful	Loss	Loss
Unsecured loans	Normal	Special mention	Substandard	Doubtful	Loss	Loss

Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our loans to customers by the five-category loan classification. We use the term "non-performing loans," "NPLs" and "impaired loans" synonymously to refer to the loans identified as "impaired loans and advances" in

Note 20 to "Appendix I — Accountant's Report" to this prospectus. Under our five-category loan classification system, our NPLs are classified as substandard, doubtful or loss.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Normal	1,433,088	96.0%	1,821,616	97.1%	2,414,984	97.7%	2,602,305	97.6%
Special mention	51,854	3.5	42,135	2.3	36,994	1.5	41,949	1.6
Substandard	1,046	0.1	2,335	0.1	4,126	0.2	4,821	0.2
Doubtful	2,465	0.1	4,077	0.2	6,976	0.2	7,890	0.3
Loss	4,152	0.3	5,585	0.3	8,773	0.4	8,789	0.3
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**
NPL ratio(1)		**0.51%**		**0.64%**		**0.80%**		**0.81%**

(1) Calculated by dividing total NPLs by gross loans to customers.

The following table sets forth, as of the dates indicated, the distribution of our loans to customers by business line and by the five-category loan classification system.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	658,848	44.2%	765,730	40.9%	945,948	38.3%	987,223	37.0%
Special mention	49,094	3.3	35,468	1.9	27,893	1.1	32,914	1.3
Substandard	271	0.0	865	0.0	1,601	0.1	2,041	0.1
Doubtful	363	0.0	1,682	0.1	3,517	0.1	3,955	0.1
Loss	242	0.0	571	0.0	2,021	0.1	2,271	0.1
Subtotal	708,818	47.5	804,316	42.9	980,980	39.7	1,028,404	38.6
NPL ratio(1)		**0.12%**		**0.39%**		**0.73%**		**0.80%**
Discounted bills								
Normal	50,602	3.4	108,345	5.8	268,293	10.9	338,883	12.7
Special mention	1	0.0	21	0.0	10	0.0	384	0.0
Substandard	—	—	—	—	—	—	—	—
Doubtful	5	0.0	—	—	—	—	—	—
Loss	1	0.0	—	—	—	—	—	—
Subtotal	50,609	3.4	108,366	5.8	268,303	10.9	339,267	12.7
NPL ratio(1)		**0.01%**		**—**		**—**		**—**
Personal loans								
Normal	723,638	48.4	947,541	50.4	1,200,743	48.5	1,276,199	47.9
Special mention	2,759	0.2	6,646	0.4	9,091	0.4	8,651	0.3
Substandard	775	0.1	1,470	0.1	2,525	0.1	2,780	0.1
Doubtful	2,097	0.1	2,395	0.1	3,459	0.1	3,935	0.2
Loss	3,909	0.3	5,014	0.3	6,752	0.3	6,518	0.2
Subtotal	733,178	49.1	963,066	51.3	1,222,570	49.4	1,298,083	48.7
NPL ratio(1)		**0.92%**		**0.92%**		**1.04%**		**1.02%**
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**
NPL ratio(2)		**0.51%**		**0.64%**		**0.80%**		**0.81%**

(1) Calculated by dividing NPLs in each business line by gross loans in that business line.

(2) Calculated by dividing total NPLs by gross loans to customers.

Our NPLs increased by 56.6% from RMB7.7 billion as of December 31, 2013 to RMB12.0 billion as of December 31, 2014, and further increased by 65.7% to RMB19.9 billion as of December 31, 2015. As of March 31, 2016, our NPLs amounted to RMB21.5 billion. Our NPL ratio increased from 0.51% as of December 31, 2013 to 0.64% as of December 31, 2014, and further increased to 0.80% as of December 31, 2015 and 0.81% as of March 31, 2016. The increases in our NPLs and NPL ratio from December 31, 2013 to March 31, 2016 were primarily due to an increase in NPLs of our corporate loans to small and micro enterprises, as well as personal loans to small and micro business owners, individual businesses and farm households, reflecting the adverse impact on operations of such borrowers of the slowdown in economic growth and natural disasters in certain regions.

Changes in Asset Quality of Our Loan Portfolio

The following table sets forth, for the periods indicated, the changes in balances of our NPLs.

	For the year ended December 31,			For the three months ended
	2013	2014	2015	March 31, 2016
	(in millions of RMB)			
Balance at the beginning of the period	**4,427**	**7,663**	**11,997**	**19,875**
Increases	5,741	9,699	17,529	5,640
Decreases	(2,505)	(5,365)	(9,651)	(4,015)
Write-offs	(1,661)	(3,609)	(7,581)	(2,172)
Recoveries	(829)	(1,718)	(2,009)	(1,574)
Upgrades	(15)	(38)	(61)	(269)
Balance at the end of the period	**7,663**	**11,997**	**19,875**	**21,500**

The following table sets forth, for the periods indicated, the migration ratios of our loan portfolio, calculated in accordance with the applicable CBRC requirements.

	For the year ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
Normal and special mention loans(1)	1.04%	1.24%	1.58%	0.30%
Normal loans(2)	1.71%	1.83%	2.15%	0.47%
Special mention loans(3)	1.47%	3.84%	6.53%	10.35%
Substandard loans(4)	92.10%	92.66%	87.94%	71.81%
Doubtful loans(5)	97.73%	91.45%	81.94%	31.76%

(1) Represents migration ratios of loans classified as normal or special mention which were downgraded to NPLs. 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

ending date 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 to the sum of (i) the difference between the balance of normal loans at the beginning date of the period and the decrease, in the period, in the loans which were classified as normal at the beginning date of the period, and (ii) the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(2) Represents migration ratios of loans classified as normal which were downgraded to lower 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 ending date of the period, and the denominator of which equals the difference between the balance of normal loans at the beginning date of the period and the decrease in such loans in the period.

(3) Represents migration ratios of loans classified as special mention which were downgraded to lower classifications. The migration ratio of special mention loans 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 lower classifications at the ending date of the period, and the denominator of which equals the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(4) Represents migration ratios of loans classified as substandard which were downgraded to lower classifications. 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 lower classifications at the ending date of the period, and the denominator of which equals the difference between the balance of substandard loans at the beginning date of the period and the decrease in such loans in the period.

(5) Represents migration ratios of loans classified as doubtful which were downgraded to lower classifications. 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 lower classifications at the ending date 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 NPLs by Product Type

The following table sets forth, as of the dates indicated, the distribution of our NPLs by product type.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]	Amount	% of total	NPL ratio[1]
	(in millions of RMB, except percentages)											
Corporate loans												
Working capital loans	741	9.7%	0.36%	2,443	20.4%	1.01%	5,911	29.8%	1.79%	7,092	33.0%	2.06%
Fixed asset loans	32	0.4	0.01	64	0.5	0.01	108	0.5	0.02	80	0.4	0.01
Trade finance loans	103	1.3	0.69	610	5.1	1.17	1,118	5.6	1.13	1,092	5.1	0.90
Other[2]	—	—	—	1	0.0	0.09	2	0.0	0.21	3	0.0	0.34
Subtotal	876	11.4	0.12	3,118	26.0	0.39	7,139	35.9	0.73	8,267	38.5	0.80
Discounted bills	6	0.1	0.01	—	—	—	—	—	—	—	—	—
Personal loans												
Consumer loans:												
Residential mortgage loans	274	3.6	0.09	573	4.8	0.14	1,287	6.5	0.22	1,476	6.9	0.23
Other consumer loans	31	0.4	0.06	152	1.3	0.14	516	2.6	0.32	652	3.0	0.38
Personal business loans	830	10.8	0.35	1,969	16.4	0.69	4,580	23.0	1.50	5,113	23.8	1.68
Micro loans	5,399	70.5	4.36	5,817	48.4	4.33	5,744	28.9	4.22	5,321	24.7	3.83
Credit card overdrafts and others	247	3.2	1.29	368	3.1	1.20	609	3.1	1.37	671	3.1	1.48
Subtotal	6,781	88.5	0.92	8,879	74.0	0.92	12,736	64.1	1.04	13,233	61.5	1.02
Total NPLs	**7,663**	**100.0%**	**0.51%**	**11,997**	**100.0%**	**0.64%**	**19,875**	**100.0%**	**0.80%**	**21,500**	**100.0%**	**0.81%**

(1) Calculated by dividing NPLs in each product type by gross loans in that product type.

(2) Consists of a loan asset portfolio we purchased from a PRC commercial bank in 2010.

Our non-performing corporate loans increased from RMB876 million as of December 31, 2013 to RMB3,118 million as of December 31, 2014, which further increased to RMB7,139 million as of December 31, 2015. As of December 31, 2013, 2014 and 2015, the NPL ratio of our corporate loans was 0.12%, 0.39% and 0.73%, respectively. As of March 31, 2016, our non-performing corporate loans amounted to RMB8,267 million, representing a NPL ratio of 0.80%. The increases in our non-performing corporate loans and NPL ratio from December 31, 2013 to March 31, 2016 were primarily due to an increase in NPLs of working capital loans and trade finance loans we extended to small enterprises, reflecting the adverse impact of the slowdown in economic growth and structural reform of China's economy on the financial conditions and creditibility of certain small enterprise customers.

Our non-performing personal loans increased from RMB6,781 million as of December 31, 2013 to RMB8,879 million as of December 31, 2014, which further increased to RMB12,736 million as of December 31, 2015. As of December 31, 2013, 2014 and 2015, the NPL ratio of our personal loans was 0.92%, 0.92% and 1.04%, respectively. The increases in our non-performing personal loans and NPL ratio from December 31, 2013 to December 31, 2015 were primarily due to increase in NPLs of our micro loans and personal business loans, reflecting (i) the deterioration of financial condition and credit status of certain owners of small and micro enterprises and individual businesses as a result of operational difficulties caused by the slowdown in economic growth, and (ii) an adverse effect on asset quality of our micro loans to farm households caused by natural disasters occurred in certain geographical regions. As of March 31, 2016, our non-performing personal loans amounted to RMB13,233 million, representing a NPL ratio of 1.02%.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing corporate loans by industry.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Transportation, storage and postal services	—	—	—	26	0.8%	0.01%	122	1.7%	0.03%	113	1.4%	0.03%
Manufacturing	390	44.6%	0.40%	1,355	43.5	1.15	3,294	46.2	2.16	3,733	45.2	2.30
Production and supply of electricity, gas and water	—	—	—	20	0.6	0.02	24	0.3	0.02	51	0.6	0.04
Financial services	—	—	—	—	—	—	—	—	—	3	0.0	0.00
Wholesale and retail	358	40.8	0.72	1,322	42.4	2.61	2,498	35.0	4.25	2,978	36.0	5.03
Construction	11	1.2	0.07	93	3.0	0.34	324	4.5	0.80	401	4.9	0.89
Real estate	14	1.6	0.07	14	0.4	0.05	9	0.1	0.02	17	0.2	0.04
Mining	—	—	—	40	1.3	0.16	107	1.5	0.26	97	1.2	0.25
Management of water conservancy, environment and public facilities	—	—	—	—	—	—	26	0.4	0.08	24	0.3	0.07
Leasing and commercial services	11	1.3	0.44	38	1.2	1.29	65	0.9	0.59	79	1.0	0.64
Agriculture, forestry, animal husbandry and fishery	22	2.5	0.51	93	3.0	1.29	291	4.0	3.14	365	4.4	4.00

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Information transmission, computer services and software	17	2.0	0.89	8	0.3	0.22	57	0.8	1.27	62	0.7	0.98
Hotels and catering	32	3.6	0.81	47	1.5	1.20	200	2.8	5.75	216	2.6	6.08
Residential services and other services	12	1.4	0.82	28	0.9	1.31	54	0.8	2.64	61	0.7	3.10
Culture, sports and entertainment	7	0.8	1.07	32	1.0	2.18	43	0.6	2.53	44	0.5	2.54
Others(2)	2	0.2	0.28	2	0.1	0.14	25	0.4	0.48	23	0.3	0.31
Total non-performing corporate loans	**876**	**100.0%**	**0.12%**	**3,118**	**100.0%**	**0.39%**	**7,139**	**100.0%**	**0.73%**	**8,267**	**100.0%**	**0.80%**

(1) Calculated by dividing NPLs in each industry by gross loans to corporate customers in that industry.

(2) Consists primarily of public administration and social organizations, education, scientific studies and technical services, health, social security and social welfare.

Our non-performing corporate loans consist primarily of NPLs to corporate borrowers in the manufacturing industry and the wholesale and retail industry. As of March 31, 2016, our NPLs to corporate borrowers in the manufacturing industry and the wholesale and retail industry represented 45.2% and 36.0% of our total non-performing corporate loans, respectively.

The NPL ratio for our corporate loans in the manufacturing industry was 0.40%, 1.15%, 2.16% and 2.30% as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. The increase in the NPL ratio for our corporate loans to borrowers in the manufacturing industry primarily reflected the adverse impact of the slowdown in economic growth on the financial conditions of certain small and micro enterprises in the manufacturing industry.

The NPL ratio for our corporate loans in the wholesale and retail industry was 0.72%, 2.61%, 4.25% and 5.03% as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. The increase in the NPL ratio for our corporate loans in the wholesale and retail industry primarily reflected (i) the adverse impact of the slowdown in economic growth on the financial conditions of borrowers in the commodities trading industry, and (ii) the adverse impact on financial conditions of wholesale and retail enterprises of the slowdown in consumer market growth and the decrease in market demand.

Distribution of Non-Performing Corporate Loans by Size of Borrowers

The following table sets forth, as of the dates indicated, the distribution of our non-performing corporate loans by size of borrowers.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Large-sized enterprises(2)	48	5.5%	0.01%	1	0.0%	0.00%	72	1.0%	0.01%	53	0.6%	0.01%
Medium-sized enterprises(2)	103	11.7	0.16	609	19.5	0.85	825	11.6	0.92	893	10.8	0.89
Small-sized enterprises(2)	689	78.6	0.51	2,337	75.0	1.57	5,650	79.1	3.40	6,649	80.5	4.17
Micro-sized enterprises(2)	36	4.2	0.12	171	5.5	0.41	592	8.3	0.95	672	8.1	1.08
Total non-performing corporate loans	**876**	**100.0%**	**0.12%**	**3,118**	**100.0%**	**0.39%**	**7,139**	**100.0%**	**0.73%**	**8,267**	**100.0%**	**0.80%**

(1) Calculated by dividing NPLs to corporate customers in each category by gross loans to corporate customers in that category.

(2) The classification criteria for large-sized, medium-sized, small-sized and micro-sized enterprises are set forth in the Classification Standards of Small and Medium Enterprises.

Distribution of NPLs by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our NPLs by geographical region.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Head Office	247	3.2%	0.05%	366	3.1%	0.13%	609	3.1%	0.21%	674	3.1%	0.23%
Yangtze River Delta	1,113	14.5	0.55	1,930	16.1	0.67	2,711	13.6	0.68	2,942	13.7	0.65
Pearl River Delta	605	7.9	0.51	995	8.3	0.50	1,914	9.6	0.71	2,052	9.6	0.70
Bohai Rim	1,167	15.2	0.73	1,487	12.4	0.55	2,478	12.5	0.68	2,933	13.7	0.76
Central China	1,616	21.1	0.72	2,147	17.9	0.60	3,647	18.3	0.72	4,223	19.6	0.76
Western China	1,097	14.3	0.53	2,068	17.2	0.60	4,868	24.5	1.06	5,467	25.4	1.12
Northeastern China	1,818	23.8	1.66	3,004	25.0	2.08	3,648	18.4	1.96	3,209	14.9	1.57
Total NPLs	**7,663**	**100.0%**	**0.51%**	**11,997**	**100.0%**	**0.64%**	**19,875**	**100.0%**	**0.80%**	**21,500**	**100.0%**	**0.81%**

(1) Calculated by dividing NPLs in each region by gross loans in that region.

The NPL ratio for our loans originated by our head office increased from 0.05% as of December 31, 2013 to 0.13% as of December 31, 2014, primarily attributable to (i) the decreased balance of loans managed by our head office in 2014 as a result of the transfer of certain corporate loans from the head office to certain branches for loan management purpose, and (ii) the adverse impact of slowdown in economic growth on the credit and financial conditions of certain credit card holders. The NPL ratio for our loans originated by our head office increased from 0.13% as of December 31, 2014 to 0.21% as of December 31, 2015, primarily attributable to the adverse impact of slowdown in economic growth on the credit and financial conditions of certain credit card holders. As of March 31, 2016, the NPL ratio for our loans originated by our head office was 0.23%.

The NPL ratio for our loans to customers originated in Yangtze River Delta increased from 0.55% as of December 31, 2013 to 0.67% as of December 31, 2014, and slightly increased to 0.68% as of December 31, 2015, which primarily reflected the adverse impact of slowdown in economic growth on the financial conditions of small and micro enterprise borrowers and impact on the financial conditions of commodity traders that were exposed to increased risks of the steel trading industry in such region. As of March 31, 2016, the NPL ratio for our loans to customers originated in Yangtze River Delta was 0.65%.

The NPL ratio for our loans to customers originated in Pearl River Delta was 0.51% and 0.50% as of December 31, 2013 and December 31, 2014, respectively. The NPL ratio of our loans to customers originated in Pearl River Delta increased from 0.50% as of December 31, 2014 to 0.71% as of December 31, 2015, primarily attributable to NPLs to certain commodity traders, reflecting the adverse impact on operations and financial conditions of small and medium enterprises of slowdown in economic growth. As of March 31, 2016, the NPL ratio for our loans to customers originated in Pearl River Delta was 0.70%.

The NPL ratio for our loans to customers originated in Bohai Rim and Central China decreased from 0.73% and 0.72% as of December 31, 2013 to 0.55% and 0.60% as of December 31, 2014. The NPL ratio for our loans to customers originated in Bohai Rim increased from 0.55% as of December 31, 2014 to 0.68% as of December 31, 2015, primarily due to the deterioration in the credit status of certain borrowers attributable to impact of industry structure reform in such region. The NPL ratio for our loans to customers originated in Central China increased from 0.60% as of December 31, 2014 to 0.72% as of December 31, 2015, which primarily reflected the adverse impact of slowdown in economic growth on the financial conditions of small and micro enterprises and individual businesses in such region. As of March 31, 2016, the NPL ratio for our loans to customers originated in Bohai Rim and Central China was 0.76% and 0.76%, respectively.

The NPL ratio for our loans to customers originated in Western China increased from 0.53% as of December 31, 2013 to 0.60% as of December 31, 2014, and further increased to 1.06% as of December 31, 2015, reflecting (i) the adverse impact of slowdown in economic growth on the credit status and financial condition of small and micro enterprise borrowers, and (ii) the adverse impact of the increased risk in coal and other industries and deteriorated credit environment in certain regions. As of March 31, 2016, the NPL ratio for our loans to customers originated in Western China was 1.12%.

The NPL ratio for our loans to customers originated in Northeastern China increased from 1.66% as of December 31, 2013 to 2.08% as of December 31, 2014, reflecting (i) the adverse impact on the credit status and financial conditions of certain borrowers due to the slowdown in economic growth and deterioration in local financial environment, and (ii) the adverse impact of natural disasters on the quality of loan assets in such region. The NPL ratio for our loans to customers originated in Northeastern China decreased from 2.08% as of December 31, 2014 to 1.96% as of December 31, 2015 and 1.57% as of March 31, 2016, primarily because we strengthened risk management measures for loans in Northeastern China and strengthened the collection and disposal of NPLs.

Distribution of NPLs by Collateral

The following table sets forth, as of the dates indicated, the distribution of our NPLs by type of collateral.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Loans secured by mortgages(2)(3)	1,913	25.0%	0.26%	4,977	41.5%	0.53%	11,449	57.5%	0.97%	13,309	61.9%	1.06%
Loans secured by pledges(2)(4)	104	1.4	0.09	535	4.5	0.46	926	4.7	0.64	911	4.2	0.59
Guaranteed loans(2)	5,380	70.1	3.20	6,017	50.1	3.15	6,634	33.4	3.05	6,292	29.3	2.83
Unsecured loans	260	3.4	0.06	468	3.9	0.09	866	4.4	0.13	988	4.6	0.14
Discounted bills	6	0.1	0.01	—	—	—	—	—	—	—	—	—
Total NPLs	**7,663**	**100.0%**	**0.51%**	**11,997**	**100.0%**	**0.64%**	**19,875**	**100.0%**	**0.80%**	**21,500**	**100.0%**	**0.81%**

(1) Calculated by dividing NPLs secured by each type of collateral by gross loans in that type of collateral.

(2) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.

(3) Represents security interest in certain assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

(4) Represents security interests in certain assets, such as moveable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

Our NPLs secured by mortgages increased from RMB1,913 million (representing a NPL ratio of 0.26%) as of December 31, 2013 to RMB4,977 million (representing a NPL ratio of 0.53%) as of December 31, 2014, and further increased to RMB11,449 million (representing a NPL ratio of 0.97%) as of December 31, 2015. As of March 31, 2016, our NPLs secured by mortgages amounted to

RMB13,309 million, representing a NPL ratio of 1.06%. The increase in our NPLs secured by mortgages from December 31, 2013 to March 31, 2016 primarily reflected (i) an increase in NPLs of small enterprise loans and personal business loans, which were primarily secured by real estate, and (ii) the prolonged period of disposing of real estate as collateral attributable to the slowdown of the PRC real estate market.

Our NPLs secured by pledges increased from RMB104 million (representing a NPL ratio of 0.09%) as of December 31, 2013 to RMB535 million (representing a NPL ratio of 0.46%) as of December 31, 2014, and further increased to RMB926 million (representing a NPL ratio of 0.64%) as of December 31, 2015. The increase in our NPLs secured by pledges from December 31, 2013 to December 31, 2015 was primarily attributable to an increase in our non-performing trade finance loans which reflected the adverse impact on the financial conditions of certain commodity traders as a result of slowdown in economic growth and structural reform of China's economy. As of March 31, 2016, our NPLs secured by pledges amounted to RMB911 million, representing a NPL ratio of 0.59%. The decreases in NPLs secured by pledges and NPL ratio for such loans from December 31, 2013 to March 31, 2016 were primarily because we strengthened the collection and disposal of NPLs.

Balance of non-performing guaranteed loans increased by 11.8% from RMB5,380 million as of December 31, 2013 to RMB6,017 million as of December 31, 2014, and further increased by 10.3% to RMB6,634 million as of December 31, 2015. As of March 31, 2016, our non-performing guaranteed loans amounted to RMB6,292 million. The NPL ratio for our guaranteed loans decreased from 3.20% as of December 31, 2013 to 3.15% as of December 31, 2014 and 3.05% as of December 31, 2015, and further decreased to 2.83% as of March 31, 2016. The NPL ratio for our guaranteed loans was relatively high primarily due to the NPLs in micro loans which are largely secured by guarantees and have relatively high credit risks and NPL ratio. The NPL ratio of our guaranteed loans continued to decrease from December 31, 2013 to March 31, 2016 primarily due to our strengthened risk management measures over micro loans in recent years.

Our non-performing unsecured loans increased from RMB260 million as of December 31, 2013 to RMB468 million as of December 31, 2014, and further increased to RMB866 million as of December 31, 2015, primarily reflecting the adverse impact of slowdown in economic growth on the financial conditions of certain credit card holders, as well as small and micro enterprise borrowers. As of March 31, 2016, our non-performing unsecured loans amounted to RMB988 million. The NPL ratio for our unsecured loans remained relatively stable at 0.06%, 0.09%, 0.13% and 0.14% as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

Ten Largest Non-performing Borrowers

The following table sets forth, as of the date indicated, our borrowers with the ten largest NPL balances.

	As of March 31, 2016				
	Industry	Outstanding principal amount	Classification	% of total NPLs	% of regulatory capital[1]
	(in millions of RMB, except percentages)				
Borrower A	Wholesale and retail	51	Loss	0.24%	0.02%
Borrower B	Wholesale and retail	50	Doubtful	0.23	0.02
Borrower C	Wholesale and retail	49	Loss	0.22	0.01
Borrower D	Manufacturing	44	Loss	0.20	0.01
Borrower E	Wholesale and retail	42	Loss	0.20	0.01
Borrower F	Wholesale and retail	40	Loss	0.19	0.01
Borrower G	Wholesale and retail	40	Loss	0.19	0.01
Borrower H	Manufacturing	39	Loss	0.18	0.01
Borrower I	Manufacturing	31	Loss	0.14	0.01
Borrower J	Wholesale and retail	30	Loss	0.14	0.01
Total		**416**		**1.93%**	**0.12%**

(1) Represents loan balance as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administrative Measures (Provisional) and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital as of March 31, 2016, see "Financial Information — Capital Resources — Capital Adequacy."

Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Current loans	1,483,584	99.4%	1,860,280	99.2%	2,447,348	99.0%	2,638,622	99.0%
Loans past due for(1):								
1 day to 90 days	2,800	0.2	5,892	0.3	7,721	0.3	8,637	0.3
91 days to 1 year	4,043	0.3	6,223	0.3	11,536	0.5	11,810	0.5
1 year to 3 years	2,038	0.1	3,212	0.2	5,040	0.2	6,416	0.2
Over 3 years	140	0.0	141	0.0	208	0.0	269	0.0
Subtotal	9,021	0.6	15,468	0.8	24,505	1.0	27,132	1.0
Total loans to customers	**1,492,605**	**100.0%**	**1,875,748**	**100.0%**	**2,471,853**	**100.0%**	**2,665,754**	**100.0%**
Loans past due for 91 days or more	6,221	0.4%	9,576	0.5%	16,784	0.7%	18,495	0.7%

(1) Represents the principal amount of the loans on which principal or interest is overdue. For loans that are repayable in installments, if any portion of the loan is overdue, the total amount of that loan is classified as overdue.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions made in that year, in accordance with the requirements under IAS 39. See "Financial Information — Critical Accounting Estimates and Judgments — Provision for Impairment on Loans and Advances to Customers" and Note 3.1 to our consolidated financial statements included in "Appendix I — Accountant's Report" to this prospectus.

Allowance for impairment losses on loans consists of two components, namely individually assessed allowance and collectively assessed allowance. We perform individual assessments to determine the allowance for impairment losses against individually significant loans, if there is objective evidence of impairment as a result of new events occurring after the initial recognition of loans that affect the estimated future cash flows of the loans. The allowance for impairment losses on loans is measured as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future cash flows of the loans, including, among other things, the recoverable value of the collateral.

Individually significant loans for which no evidence of impairment has been individually identified consist of loans classified as normal and special mention. These loans are assessed collectively as a group with similar credit risk characteristics for the purpose of determining the allowance for impairment losses. Homogeneous groups of loans that are not considered individually significant are also collectively assessed for the purpose of determining the allowance for impairment losses. The allowance for impairment losses on the collectively assessed loans is assessed based on our historical loss experience in similar portfolios and on current economic conditions. For further discussion of individually assessed allowance and collectively assessed allowance, see "Financial Information — Critical Accounting Estimates and Judgments — Provision for Impairment on Loans and Advances to Customers" and Note 3.1 to our financial information included in "Appendix I — Accountant's Report" to this prospectus.

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses for our loans to customers by our assessment methodology.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	Allowance to loans(1)	Amount	Allowance to loans(1)	Amount	Allowance to loans(1)	Amount	Allowance to loans(1)
	(in millions of RMB, except percentages)							
Collectively assessed	29,345	1.97%	43,103	2.30%	57,762	2.34%	59,759	2.24%
Individually assessed	—	—	578	70.57	1,496	72.62	1,884	77.85
Total allowance	**29,345**	**1.97%**	**43,681**	**2.33%**	**59,258**	**2.40%**	**61,643**	**2.31%**

(1) Calculated by dividing the allowance for impairment losses on loans in each category by the gross loans in that category.

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by loan classification category.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total amount	Allowance to loans(1)	Amount	% of total amount	Allowance to loans(1)	Amount	% of total amount	Allowance to loans(1)	Amount	% of total amount	Allowance to loans(1)
	(in millions of RMB, except percentages)											
Normal................	19,993	68.1%	1.40%	30,262	69.1%	1.66%	39,838	67.2%	1.65%	41,012	66.5%	1.58%
Special mention....	2,955	10.1	5.70	3,982	9.2	9.45	4,089	6.9	11.05	4,198	6.8	10.01
Substandard..........	409	1.4	39.10	929	2.2	39.79	1,620	2.7	39.26	2,024	3.3	41.98
Doubtful..............	1,836	6.3	74.48	2,923	6.7	71.69	4,938	8.4	70.79	5,620	9.1	71.23
Loss....................	4,152	14.1	100.00	5,585	12.8	100.00	8,773	14.8	100.00	8,789	14.3	100.00
Total allowance...	**29,345**	**100.0%**	**1.97%**	**43,681**	**100.0%**	**2.33%**	**59,258**	**100.0%**	**2.40%**	**61,643**	**100.0%**	**2.31%**

(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, as of the dates indicated, the distribution of our allowance for impairment losses by business line and by loan classification.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total amount	Allowance to loans[(1)]	Amount	% of total amount	Allowance to loans[(1)]	Amount	% of total amount	Allowance to loans[(1)]	Amount	% of total amount	Allowance to loans[(1)]
	(in millions of RMB, except percentages)											
Corporate loans												
Normal	9,898	33.7%	1.50%	15,277	34.9%	2.00%	19,831	33.4%	2.10%	20,352	33.0%	2.06%
Special mention	2,779	9.5	5.66	3,343	7.7	9.43	3,067	5.2	11.00	3,087	5.0	9.38
Substandard	111	0.4	40.96	380	0.9	43.93	665	1.1	41.54	950	1.6	46.55
Doubtful	267	0.9	73.55	1,260	2.9	74.91	2,590	4.4	73.64	2,828	4.6	71.50
Loss	242	0.8	100.00	571	1.3	100.00	2,021	3.4	100.00	2,271	3.7	100.00
Subtotal	13,297	45.3	1.88	20,831	47.7	2.59	28,174	47.5	2.87	29,488	47.9	2.87
Discounted bills												
Normal	51	0.2	0.10	110	0.3	0.10	468	0.8	0.17	436	0.7	0.13
Special mention	—	—	—	1	0.0	4.76	1	0.0	10.00	23	0.0	5.99
Substandard	—	—	—	—	—	—	—	—	—	—	—	—
Doubtful	4	0.0	80.00	—	—	—	—	—	—	—	—	—
Loss	1	0.0	100.00	—	—	—	—	—	—	—	—	—
Subtotal	56	0.2	0.11	111	0.3	0.10	469	0.8	0.17	459	0.7	0.14
Personal loans												
Normal	10,044	34.2	1.39	14,875	33.9	1.57	19,539	33.0	1.63	20,224	32.8	1.58
Special mention	176	0.6	6.38	638	1.5	9.60	1,021	1.7	11.23	1,088	1.8	12.58
Substandard	298	1.0	38.45	549	1.3	37.35	955	1.6	37.82	1,074	1.7	38.63
Doubtful	1,565	5.4	74.63	1,663	3.8	69.44	2,348	4.0	67.88	2,792	4.5	70.95
Loss	3,909	13.3	100.00	5,014	11.5	100.00	6,752	11.4	100.00	6,518	10.6	100.00
Subtotal	15,992	54.5	2.18	22,739	52.0	2.36	30,615	51.7	2.50	31,696	51.4	2.44
Total allowance	**29,345**	**100.0%**	**1.97%**	**43,681**	**100.0%**	**2.33%**	**59,258**	**100.0%**	**2.40%**	**61,643**	**100.0%**	**2.31%**

(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 recognize net provisions for impairment losses on loans to customers on our consolidated statements of comprehensive income. See "Financial Information — Results of Operations for the Three Months Ended March 31, 2015 and 2016 — Impairment Losses on Assets" and "Financial Information — Results of Operations for the Years ended December 31, 2013, 2014 and 2015 — Impairment Losses on Assets."

The following table sets forth, for the periods indicated, the changes to the allowance for impairment losses on loans to customers.

	As of or for the period ended December 31/ March 31,
	(in millions of RMB)
As of December 31, 2012	**22,998**
Net provision in the year[1]	8,066
Unwinding of discount on allowance[2]	(81)
Write-off and Transfers out	(1,661)
Recoveries of loans written-off	23
As of December 31, 2013	**29,345**
Net provision in the year[1]	17,921
Unwinding of discount on allowance[2]	(204)
Write-off and Transfers out	(3,609)
Recoveries of loans written-off	228
As of December 31, 2014	**43,681**
Net provision in the year[1]	23,186
Unwinding of discount on allowance[2]	(593)
Write-off and Transfers out	(7,581)
Recoveries of loans written-off	565
As of December 31, 2015	**59,258**
Net provision in the period[1]	4,302
Unwinding of discount on allowance[2]	(68)
Write-off and Transfers out	(2,172)
Recoveries of loans written-off	323
As of March 31, 2016	**61,643**

(1) Represents gross allowance for impairment losses (additions to the allowance for losses on loans), net of write-backs.

(2) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present value due to the passage of time.

Our allowance for impairment losses on loans increased by 48.9% from RMB29.3 billion as of December 31, 2013 to RMB43.7 billion as of December 31, 2014, and further increased by 35.7% to RMB59.3 billion as of December 31, 2015. As of March 31, 2016, our allowance for impairment losses on loans amounted to RMB61.6 billion. The continued increase in our allowance for impairment loss was primarily due to the overall growth in our loan portfolio and an increase in the balance of our NPLs.

Net provision for allowance for impairment losses on loans increased by 122.2% from RMB8.1 billion in 2013 to RMB17.9 billion in 2014, and further increased by 29.4% to RMB23.2 billion in 2015. The increase was primarily due to (i) the overall growth in our loan portfolio and an increase in the balance of our NPLs, and (ii) our increased provision of allowance for impairment losses for loans granted to the major risk areas, such as government financing vehicles, so as to further increase our risk compensation capability. For the three months ended March 31, 2016, our net provision for allowance for impairment losses on loans amounted to RMB4,302 million.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our allowance for impairment losses on loans amounted to RMB29.3 billion, RMB43.7 billion, RMB59.3 billion and RMB61.6 billion, representing an allowance coverage ratio of 382.94%, 364.10%, 298.15% and 286.71%, respectively. The decrease in our allowance coverage ratio was mainly due to an increase by year in our NPLs. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our allowance to gross loan ratio was 1.97%, 2.33%, 2.40% and 2.31%, respectively.

Distribution of Allowance for Impairment Losses on Loans by Product Type

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses on loans to customers by product type.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	Allowance to NPLs[1]	Amount	% of total	Allowance to NPLs[1]	Amount	% of total	Allowance to NPLs[1]	Amount	% of total	Allowance to NPLs[1]
	(in millions of RMB, except percentages)											
Corporate loans												
Working capital loans	4,323	14.7%	583.40%	6,688	15.3%	273.76%	12,948	21.9%	219.05%	14,046	22.9%	198.05%
Fixed asset loans	8,795	30.0	27,484.38	13,327	30.6	20,823.44	13,920	23.4	12,888.89	13,986	22.7	17,482.50
Trade finance loans	159	0.5	154.37	797	1.8	130.66	1,288	2.2	115.21	1,443	2.3	132.14
Others[2]	20	0.1	—	19	0.0	1,900.00	18	0.0	900.00	13	0.0	433.33
Subtotal	13,297	45.3	1,517.92	20,831	47.7	668.09	28,174	47.5	394.65	29,488	47.9	356.70
Discounted bills	56	0.2	933.33	111	0.3	—	469	0.8	—	459	0.7	—
Personal loans												
Consumer loans:												
Residential mortgage loans	3,221	11.0	1,175.55	4,633	10.6	808.55	6,959	11.7	540.71	7,784	12.6	527.37
Other consumer loans	578	2.0	1,864.52	1,231	2.8	809.87	2,106	3.6	408.14	2,286	3.7	350.61
Personal business loans	4,601	15.7	554.34	6,637	15.2	337.07	10,451	17.7	228.19	10,966	17.8	214.47
Micro loans	7,026	23.9	130.14	9,380	21.4	161.25	9,776	16.5	170.19	9,360	15.2	175.91
Credit card overdrafts and others	566	1.9	229.15	858	2.0	233.15	1,323	2.2	217.24	1,300	2.1	193.74
Subtotal	15,992	54.5	235.84	22,739	52.0	256.10	30,615	51.7	240.38	31,696	51.4	239.52
Total allowance	**29,345**	**100.0%**	**382.94%**	**43,681**	**100.0%**	**364.10%**	**59,258**	**100.0%**	**298.15%**	**61,643**	**100.0%**	**286.71%**

(1) Calculated by dividing allowance for impairment losses on loans in each product type by NPLs in that product type.

(2) Consists of a loan asset portfolio we purchased from a PRC commercial bank in 2010.

Distribution of Allowance for Impairment Losses on Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses on corporate loans by industry.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	Allowance to NPLs[1]	Amount	% of total	Allowance to NPLs[1]	Amount	% of total	Allowance to NPLs[1]	Amount	% of total	Allowance to NPLs[1]
	(in millions of RMB, except percentages)											
Transportation, storage and postal services	5,406	40.7%	—	5,897	28.3%	22,680.77%	6,333	22.5%	5,190.98%	8,674	29.4%	7,676.11%
Manufacturing	2,037	15.3	522.31%	3,476	16.7	256.53	6,699	23.8	203.37	7,131	24.2	191.03
Production and supply of electricity, gas and water	1,934	14.5	—	2,090	10.0	10,450.00	2,602	9.2	10,841.67	2,697	9.1	5,288.24
Financial services	—	—	—	46	0.2	—	154	0.6	—	206	0.7	6,866.67
Wholesale and retail	1,011	7.6	282.40	1,754	8.4	132.68	2,825	10.0	113.09	3,790	12.8	127.27
Construction	279	2.1	2,536.36	712	3.4	765.59	1,225	4.3	378.09	1,414	4.8	352.62
Real estate	296	2.2	2,114.29	1,103	5.3	7,878.57	1,341	4.8	14,900.00	1,358	4.6	7,988.24
Mining	439	3.3	—	581	2.8	1,452.50	1,390	4.9	1,299.07	1,431	4.9	1,475.26
Management of water conservancy, environment and public facilities	1,173	8.8	—	1,520	7.3	—	1,212	4.3	4,661.54	1,207	4.1	5,029.17
Leasing and commercial services	65	0.5	590.91	117	0.6	307.89	247	0.9	380.00	276	0.9	349.37
Agriculture, forestry, animal husbandry and fishery	97	0.7	440.91	231	1.1	248.39	477	1.7	163.92	496	1.7	135.89
Information transmission, computer services and software	406	3.1	2,388.24	3,024	14.5	37,800.00	3,116	11.1	5,466.67	163	0.6	262.90
Hotels and catering	89	0.7	278.13	102	0.5	217.02	212	0.8	106.00	265	0.9	122.69
Residential services and other services	34	0.3	283.33	58	0.3	207.14	94	0.3	174.07	96	0.3	157.38
Culture, sports and entertainment	17	0.1	242.86	55	0.3	171.88	70	0.2	162.79	75	0.3	170.45
Others[2]	14	0.1	700.00	65	0.3	3,250.00	177	0.6	708.00	209	0.7	908.70
Total allowance for corporate loans	**13,297**	**100.0%**	**1,517.92%**	**20,831**	**100.0%**	**668.09%**	**28,174**	**100.0%**	**394.65%**	**29,488**	**100.0%**	**356.70%**

(1) Calculated by dividing the allowance for impairment losses on loans to corporate customers in each industry by NPLs in that industry.

(2) Consists primarily of public administration and social organizations, education, scientific studies and technical services, health, social security and social welfare.

Distribution of Allowance for Impairment Losses by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by geographical region.

	As of December 31,									As of March 31,		
	2013			2014			2015			2016		
	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]
	(in millions of RMB, except percentages)											
Head Office	8,810	30.0%	3,566.80%	3,431	7.9%	937.43%	3,973	6.7%	652.38%	3,990	6.5%	591.99%
Yangtze River Delta	3,542	12.1	318.24	6,453	14.8	334.35	8,142	13.8	300.33	8,738	14.2	297.01
Pearl River Delta	2,117	7.2	349.92	3,772	8.6	379.10	5,490	9.3	286.83	5,774	9.4	281.38
Bohai Rim	3,239	11.1	277.55	6,061	13.9	407.60	8,252	13.9	332.01	8,868	14.4	302.35
Central China	4,642	15.8	287.25	8,498	19.4	395.81	12,627	21.3	346.23	13,303	21.6	315.01
Western China	3,997	13.6	364.36	9,199	21.1	444.83	13,767	23.2	282.81	14,294	23.1	261.46
Northeastern China	2,998	10.2	164.91	6,267	14.3	208.62	7,007	11.8	192.08	6,676	10.8	208.04
Total allowance	**29,345**	**100.0%**	**382.94%**	**43,681**	**100.0%**	**364.10%**	**59,258**	**100.0%**	**298.15%**	**61,643**	**100.0%**	**286.71%**

(1) Calculated by dividing the allowance for impairment losses on loans in each region by NPLs originated in that region.

Investment Securities and Other Financial Assets

Our investment securities and other financial assets are a major component of our assets. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our investment securities and other financial assets (net of allowance for impairment losses) amounted to RMB1,277.4 billion, RMB1,580.2 billion, RMB2,986.7 billion and RMB2,909.8 billion, representing 22.9%, 25.1%, 40.9% and 37.8% of our total assets, respectively.

The following table sets forth, as of the dates indicated, the components of our investment securities and other financial assets (net).

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt securities	1,123,450	87.9%	1,094,263	69.2%	1,874,852	62.8%	1,892,950	65.1%
Negotiable certificates of deposit	—	—	1,474	0.1	18,526	0.6	55,827	1.9
Commerial bank wealth management products	64,225	5.0	162,150	10.3	326,581	10.9	349,209	12.0
Asset management plans	79,486	6.2	223,781	14.2	285,426	9.6	282,274	9.7
Trust investment plans	7,987	0.6	96,597	6.1	228,317	7.6	163,863	5.6
Securities investment funds(1)	—	—	—	—	246,103	8.2	157,356	5.4
Others(2)	2,293	0.3	1,957	0.1	6,862	0.3	8,336	0.3
Total investment securities and other financial assets, net	**1,277,441**	**100.0%**	**1,580,222**	**100.0%**	**2,986,667**	**100.0%**	**2,909,815**	**100.0%**

(1) Consists of money market funds.

(2) Consists primarily of industrial fund investments, equity investments and investments that we make with proceeds from principal-guaranteed wealth management products.

Our investment securities and other financial assets (net) increased by 23.7% from RMB1,277.4 billion as of December 31, 2013 to RMB1,580.2 billion as of December 31, 2014, primarily due to increases in investments in commercial bank wealth management products, trust investment plans and asset management plans. Our investment securities and other financial assets (net) increased by 89.0% from RMB1,580.2 billion as of December 31, 2014 to RMB2,986.7 billion as of December 31, 2015, primarily due to (i) increases in investments in debt securities, trust investment plans and commercial bank wealth management products, and (ii) our investments in money market funds since 2015. As of March 31, 2016, our investment securities and other financial assets (net) amounted to RMB2,909.8 billion.

As of December 31, 2013, 2014 and 2015 and March 31, 2016, allowance for impairment losses on investment securities and other financial assets amounted to nil, RMB2,272 million, RMB3,940 million and RMB3,245 million, respectively, which were allowance for impairment losses on investment classified as receivables. Our investment securities and other financial assets are reported net of allowance for impairment losses on our statement of financial position. The following discussion is based on our investment securities and other financial assets net of the allowance for impairment losses.

Debt Securities

Debt securities are the largest component of our investment securities and other financial assets. As of December 31, 2013, 2014 and 2015 and March 31, 2016, debt securities accounted for 87.9%, 69.2%, 62.8% and 65.1% of our investment securities and other financial assets, respectively. Our debt securities consist primarily of debt securities issued by the PRC central and local governments, PRC policy banks, PRC commercial banks and other financial institutions and PRC corporates.

The following table sets forth, as of the dates indicated, the components of our debt securities by issuer type.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Government bonds	362,162	32.3%	346,391	31.7%	396,339	21.2%	404,766	21.4%
Debt securities issued by public institutions and quasi-government[(1)]	1,423	0.1	1,429	0.1	570	0.0	570	0.0
Debt securities issued by financial institutions	709,026	63.1	674,959	61.7	1,408,485	75.1	1,417,482	74.9
Debt securities issued by corporates	50,839	4.5	71,484	6.5	69,458	3.7	70,132	3.7
Total debt securities	**1,123,450**	**100.0%**	**1,094,263**	**100.0%**	**1,874,852**	**100.0%**	**1,892,950**	**100.0%**

(1) Consists primarily of debt securities issued by Huijin.

Our investment in debt securities decreased by 2.6% from RMB1,123.5 billion as of December 31, 2013 to RMB1,094.3 billion as of December 31, 2014 respectively, primarily reflecting a decrease in investments in debt securities issued by financial institutions and government bonds which was partially offset by an increase in our investments in debt securities issued by corporates. Our investments in debt securities increased by 71.3% from RMB1,094.3 billion as of December 31, 2014 to RMB1,874.9 billion as of December 31, 2015, primarily due to our increased investments in debt securities issued by financial institutions. As of March 31, 2016, our investment in debt securities amounted to RMB1,893.0 billion.

Government bonds slightly decreased by 4.4% from RMB362.2 billion as of December 31, 2013 to RMB346.4 billion as of December 31, 2014, primarily due to our adjustment to investment portfolio based on returns on each investment product. Government bonds increased by 14.4% from RMB346.4 billion as of December 31, 2014 to RMB396.3 billion as of December 31, 2015, primarily due to our increased investments in debt securities issued by local governments. As of March 31, 2016, our government bonds amounted to RMB404.8 billion.

Debt securities issued by public institutions and quasi-government remained stable as of December 31, 2013 and 2014, amounting to RMB1,423 million and RMB1,429 million, respectively. Debt securities issued by public institutions and quasi-government decreased by 60.1% from RMB1,429 million as of December 31, 2014 to RMB570 million as of December 31, 2015, which primarily reflected a portion of debt securities issued by Huijin became due in 2015. As of March 31, 2016, our debt securities issued by public institutions and quasi-government amounted to RMB570 million.

Debt securities issued by financial institutions decreased slightly by 4.8% from RMB709.0 billion as of December 31, 2013 to RMB675.0 billion as of December 31, 2014. Debt securities issued by financial institutions increased by 108.7% from RMB675.0 billion as of December 31, 2014 to RMB1,408.5 billion as of December 31, 2015, primarily because we invested in long-term special financial bonds issued by China Development Bank and Agricultural Development Bank in an aggregate principal of RMB778.0 billion in the second half of 2015. The terms of such long-term special financial bonds range from five years to 20 years and the interest income on these bonds is subject to an income tax at 12.5%, which is a 50% reduction of the statutory corporate income tax rate of 25%. As of March 31, 2016, our debt securities issued by financial institutions amounted to RMB1,417.5 billion.

Debt securities issued by corporates increased by 40.6% from RMB50.8 billion as of December 31, 2013 to RMB71.5 billion as of December 31, 2014, primarily due to our adjustment to our investment portfolio structure to increase investments in corporate bonds with higher returns. Debt securities issued by corporates decreased by 2.8% from RMB71.5 billion as of December 31, 2014 to RMB69.5 billion as of December 31, 2015, primarily reflecting our adjusted investment strategy on debt securities under the circumstances that credit risk of corporate bonds increased attributable to economic slowdown. As of March 31, 2016, our debt securities issued by corporates amounted to RMB70.1 billion.

The following table sets forth, as of the dates indicated, the distribution of our debt securities by currency.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
RMB-denominated bonds	1,122,722	99.9%	1,093,638	99.9%	1,873,163	99.9%	1,888,289	99.8%
Foreign currency-denominated bonds	728	0.1	625	0.1	1,689	0.1	4,661	0.2
Total debt securities	**1,123,450**	**100.0%**	**1,094,263**	**100.0%**	**1,874,852**	**100.0%**	**1,892,950**	**100.0%**

The following table sets forth, as of March 31, 2016, the balance of our debt securities portfolio by remaining maturity.

	As of March 31, 2016				
	Due in less than 3 months	Due in over 3 months up to 12 months	Due in over 1 year up to 5 years	Due in over 5 years	Total
	(in millions of RMB)				
Government bonds	10,721	24,614	147,998	221,433	404,766
Debt securities issued by public institutions and quasi-government[(1)]	—	—	570	—	570
Debt securities issued by financial institutions	24,071	41,582	491,468	860,361	1,417,482
Debt securities issued by corporates	2,796	9,496	31,832	26,008	70,132
Total debt securities	**37,588**	**75,692**	**671,868**	**1,107,802**	**1,892,950**

(1) Consists primarily of debt securities issued by Huijin.

The following table sets forth, as of the dates indicated, a breakdown of our debt securities between fixed interest rates and floating interest rates.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Fixed interest rates	634,387	56.5%	645,413	59.0%	818,546	43.7%	841,860	44.5%
Floating interest rates	489,063	43.5	448,850	41.0	1,056,306	56.3	1,051,090	55.5
Total debt securities	**1,123,450**	**100.0%**	**1,094,263**	**100.0%**	**1,874,852**	**100.0%**	**1,892,950**	**100.0%**

Negotiable Certificates of Deposit

Negotiable certificates of deposit are time certificates of deposit issued by commercial banks on the interbank market which are transferrable before the maturity. We started to purchase negotiable certificates of deposit with good liquidity since 2014 with a strategy for allocation of short-term funds. As of December 31, 2014 and 2015 and March 31, 2016, our negotiable certificates of deposit amounted to RMB1,474 million, RMB18.5 billion and RMB55.8 billion, respectively. The rapid increase in negotiable certificates of deposit that we held was primarily because we considered such products as a major product for our trading and investments as they usually have good liquidity.

Commercial Bank Wealth Management Products

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our holding of commercial bank wealth management products accounted for 5.0%, 10.3%, 10.9% and 12.0% of our investment securities and other financial assets (net), respectively. Our holding of commercial bank wealth management products increased by 152.5% from RMB64.2 billion as of December 31, 2013 to RMB162.2 billion as of December 31, 2014, and further increased by 101.4% to RMB326.6 billion as of December 31, 2015, primarily reflecting our efforts to diversify, and seek higher returns on, our investment portfolio. As of March 31, 2016, our holding of commercial bank wealth management products amounted to RMB349.2 billion, an increase of 6.9% from RMB326.6 billion as of December 31, 2015, primarily because we increased our investments in commercial bank wealth management products with good liquidity.

Asset Management Plans

Asset management plans consist primarily of investment products managed by asset management companies, securities firms and fund management firms with negotiated deposits, bank acceptance bills and entrusted creditor's rights as underlying assets. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our holding of asset management plans accounted for 6.2%, 14.2%, 9.6% and 9.7% of our investment securities and other financial assets (net), respectively. Our holding of asset management plans increased by 181.5% from RMB79.5 billion as of December 31, 2013 to RMB223.8 billion as of December 31, 2014, and further increased by 27.5% to RMB285.4 billion as of December 31, 2015, primarily reflecting our efforts to diversify, and seek higher returns on, our investment portfolio. Our holding of asset management plans remained stable from December 31, 2015 to March 31, 2016. As of March 31, 2016, our holding of asset management plans amounted to RMB282.3 billion.

Trust Investment Plans

Trust investment plans are financial products representing the beneficiary rights of a trust plan which is initiated, established and managed by a trust company. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our holding of trust investment plans accounted for 0.6%, 6.1%, 7.6% and 5.6% of our investment securities and other financial assets (net), respectively. Our holding of trust investment plans significantly increased from RMB8.0 billion as of December 31, 2013 to RMB96.6 billion as of December 31, 2014, and further increased by 136.4% to RMB228.3 billion as of December 31, 2015, primarily reflecting our efforts to diversify, and seek higher returns on, our investment portfolio. As of March 31, 2016, our holding of trust investment plans amounted to RMB163.9 billion, a decrease of 28.2% from RMB228.3 billion as of December 31, 2015, primarily because we allocated the funds on other assets based on the market condition and our investment strategies when certain trust investment plans became due.

Securities Investment Funds

Securities investment funds consist primarily of money market funds. We started to invest in money market funds which usually have good liquidity and low risks in 2015. As of December 31, 2015 and March 31, 2016, securities investment funds amounted to RMB246.1 billion and RMB157.4 billion, respectively. Our holding of securities investment funds decreased primarily because we redeemed a portion of money market funds.

Other Investments

Our other investments consist primarily of industrial fund investments, equity investments and investments that we make with proceeds from principal-guaranteed wealth management products. As of December 31, 2013, 2014 and 2015 and March 31, 2016, our other investments amounted to RMB2,293 million, RMB1,957 million, RMB6,862 million and RMB8,336 million, respectively. The significant increase in other instruments from December 31, 2014 to December 31, 2015 primarily reflected an increase in our investments with proceeds from principal-guaranteed wealth management products attributable to the increased number of our wealth management products. As of March 31, 2016, our other investments amounted to RMB8,336 million, an increase of 21.5% from RMB6,862 million as of December 31, 2015, primarily because we increased our investments with proceeds from principal-guaranteed wealth management products as such products grew.

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) investment classified as receivables, based on our investment intentions for holding such assets and 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. Investment 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, investment classified as receivables or held-to-maturity investments.

The following table sets forth, as of the dates indicated, the distribution of our investment securities and other financial assets by our investment intention. For further details on the components of each category of our investment securities and other financial assets, see Notes 17 and 21 to our historical financial information included in "Appendix I — Accountant's Report" to this prospectus.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Financial assets at fair value through profit or loss	4,482	0.4%	9,898	0.6%	27,719	0.9%	75,273	2.6%
Available-for-sale financial assets	136,638	10.7	138,331	8.8	390,683	13.1	453,522	15.6
Held-to-maturity investments	681,604	53.4	661,513	41.9	684,767	22.9	677,436	23.3
Investment classified as receivables(1)	454,717	35.5	770,480	48.7	1,883,498	63.1	1,703,584	58.5
Total	**1,277,441**	**100.0%**	**1,580,222**	**100.0%**	**2,986,667**	**100.0%**	**2,909,815**	**100.0%**

(1) Investment classified as receivables are net of the related allowance for impairment losses of nil, RMB2,272 million, RMB3,940 million and RMB3,245 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively.

Our financial assets at fair value through profit or loss consist primarily of debt securities issued by PRC corporates, negotiable certificates of deposit issued by banks and other financial institutions, debt securities issued by banks and other financial institutions, and asset management plans which we invest in with proceeds of principal-guaranteed wealth management products issued by us. Our financial assets at fair value through profit or loss increased by 120.8% from RMB4,482 million as of December 31, 2013 to RMB9,898 million as of December 31, 2014, primarily due to an increase in our purchases of debt securities issued by corporates and the negotiable certificates of deposit issued by commercial banks for trading purposes. Our financial assets at fair value through profit or loss increased by 180.0% from RMB9,898 million as of December 31, 2014 to RMB27.7 billion as of December 31, 2015, primarily attributable to (i) an increase in our purchases of negotiable certificates of deposit issued by commercial banks for trading purposes, and (ii) an increase in asset management plans we invested in with proceeds from our principal-guaranteed wealth management products. Our financial assets at fair value through profit or loss increased by 171.6% from RMB27.7 billion as of December 31, 2015 to RMB75.3 billion as of March 31, 2016, primarily because we increased our investments in negotiable certificates of deposit and debt securities issued by financial institutions.

Our available-for-sale financial assets consist primarily of (i) debt securities issued by the PRC governments, PRC policy banks, PRC commercial banks and other financial institutions, and PRC corporates, and (ii) money market funds. Our available-for-sale financial assets remained relatively stable, amounting to RMB136.6 billion and RMB138.3 billion as of December 31, 2013 and 2014. Our available-for-sale financial assets increased by 182.4% from RMB138.3 billion as of December 31, 2014 to RMB390.7 billion as of December 31, 2015, primarily due to our increased investments in money market funds. Our available-for-sale financial assets increased by 16.1% from RMB390.7 billion as of December 31, 2015 to RMB453.5 billion as of March 31, 2016, primarily because (i) we increased our investments in wealth management products with non-guaranteed principal and return issued by other commercial banks, and (ii) we increased our investments in government bonds and debt securities issued by financial institutions.

Our held-to-maturity investments consist primarily of debt securities issued by PRC governments, PRC policy banks, PRC commercial banks and other financial institutions and PRC corporates. Our held-to-maturity investments slightly decreased by 2.9% from RMB681.6 billion as of December 31, 2013 to RMB661.5 billion as of December 31, 2014. Our held-to-maturity investments increased by 3.5% from RMB661.5 billion as of December 31, 2014 to RMB684.8 billion as of December 31, 2015, primarily reflected that our increased investments in debt securities issued by local governments, which was partially offset by a decrease in investments in debt securities issued by the financial institutions. As of March 31, 2016, our held-to-maturity investments amounted to RMB677.4 billion.

Our investment classified as receivables consist primarily of debt securities issued by the PRC governments, PRC policy banks, PRC commercial banks and other financial institutions and PRC corporates, commercial bank wealth management products, trust investment plans and asset management plans. Our investment classified as receivables increased by 69.4% from RMB454.7 billion as of December 31, 2013 to RMB770.5 billion as of December 31, 2014, primarily because we moderately increased our investments in commercial bank wealth management products, trust investment plans and asset management plans which usually have higher returns to enhance the overall return of our investment portfolio. Our investment classified as receivables increased by 144.5% from RMB770.5 billion as of December 31, 2014 to RMB1,883.5 billion as of December 31, 2015, primarily because (i) we purchased long-term special financial bonds issued by China Development Bank and Agricultural Development Bank in an aggregate principal amount of RMB778.0 billion in the second half of 2015, and (ii) we continued to invest in commercial bank wealth management products, trust investment plans and asset management plans. Our investment classified as receivables decreased by 9.6% from RMB1,883.5 billion as of December 31, 2015 to RMB1,703.6 billion as of March 31, 2016, primarily because of the maturity of certain investment classified as receivables.

The table below sets forth, as of March 31, 2016, the distribution of our investment securities and other financial assets by remaining maturity.

	As of March 31, 2016						
	Due in less than 1 month	Due in over 1 month up to 3 months	Due in over 3 months up to 12 months	Due in over 1 year up to 5 years	Due in over 5 years	Undated	Total
	(in millions of RMB)						
Financial assets at fair value through profit or loss	11,924	16,528	44,197	1,770	854	—	75,273
Available-for-sale financial assets	169,814	63,806	102,793	87,051	29,992	66	453,522
Held-to-maturity investments	8,646	13,890	36,721	312,976	305,203	—	677,436
Investment classified as receivables	82,316	131,312	150,884	532,343	806,729	—	1,703,584
Total	**272,700**	**225,536**	**334,595**	**934,140**	**1,142,778**	**66**	**2,909,815**

Carrying Value and Fair Value

All investment securities classified as available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value. The following table sets forth, as of the dates indicated, the carrying value and the fair value of the held-to-maturity investments and investment classified as receivables in our investment portfolio.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(in millions of RMB)							
Held-to-maturity investments	681,604	637,005	661,513	664,047	684,767	711,061	677,436	707,580
Investment classified as receivables	454,717	453,918	770,480	783,811	1,883,498	1,985,754	1,703,584	1,654,373

Investment Concentration

The table below sets forth, as of the date indicated, our investment securities and other financial assets whose carrying value exceeded 10% of our total equity.

	As of March 31, 2016			
	Carrying value	% of total investment	% of total equity[1]	Market fair value
	(in millions of RMB, except percentages)			
China Development Bank	1,109,804	38.1%	405.3%	1,049,868
MOF[2]	286,555	9.8	104.7	305,371
Agricultural Development Bank of China	256,582	8.8	93.7	243,568
China Railway Corporation	28,527	1.0	10.4	30,677
The Export-Import Bank of China	28,174	1.0	10.3	28,828
Total	**1,709,642**	**58.7%**	**624.4%**	**1,658,312**

(1) For calculation of total shareholders' equity, see "Financial Information — Capital Resources — Shareholders' Equity."

(2) Includes (i) bonds issued by the MOF with sovereign credit, and (ii) bonds issued and repaid by the MOF on behalf of local governments.

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with central bank, (ii) deposits with banks and other financial institutions, (iii) placements with banks and other financial institutions, and (iv) financial assets held under resale agreements.

Cash and deposits with central bank consist primarily of cash, statutory and surplus deposit reserves, special deposits and fiscal deposits. Statutory deposit reserves represent the minimum deposits that we are required to maintain with the PBOC. Surplus deposit reserves consist primarily of deposits with the PBOC under the reserve account in excess of statutory deposit reserves, which we maintain for fund clearing and settlement. Special deposits are fixed-term deposits we historically deposited with the PBOC. Our cash and deposits with central bank increased by 13.4% from RMB1,225.7 billion as of December 31, 2013 to RMB1,389.8 billion as of December 31, 2014, in line with the continued growth in our total customer deposits. Our cash and deposits with central bank decreased by 18.6% from RMB1,389.8 billion as of December 31, 2014 to RMB1,131.2 billion as of December 31, 2015, primarily reflecting (i) the PBOC consecutively cut the statutory reserve ratio on RMB-denominated deposits in 2015, and (ii) all of our special deposits with the PBOC became due in 2015. Our cash and deposits with central bank increased by 17.6% from RMB1,131.2 billion as of December 31, 2015 to RMB1,329.8 billion as of March 31, 2016, primarily due to (i) an increase in our statutory deposit reserves with central bank in line with the continued growth in our total customer deposits and (ii) an increase in our surplus deposit reserves with central bank.

Deposits with banks and other financial institutions consist primarily of our negotiated deposits with other PRC banks. Our deposits with banks and other financial institutions, net of allowance for impairment losses, decreased by 30.1% from RMB1,044.6 billion as of December 31, 2013 to RMB730.2 billion as of December 31, 2014, and further decreased by 55.6% to RMB324.1 billion as of December 31, 2015, primarily reflecting (i) we reduced medium- and long-term deposits with banks and other financial institutions in accordance with regulatory requirements, and (ii) we allocated more funds on commercial bank wealth management products, trust investment plans and asset management plans which usually have higher returns than deposits with banks and other financial institutions. Our deposits with banks and other financial institutions decreased by 39.9% from RMB324.1 billion as of December 31, 2015 to RMB194.8 billion as of March 31, 2016, primarily because we allocated the funds on other assets with higher returns when certain deposits with banks and other financial institutions became due in the first quarter of 2016 when interbank market interest rates remained relatively low.

Placements with banks and other financial institutions consist primarily of interbank lending. Our placements with banks and other financial institutions, net of the allowance for impairment losses, increased by 21.7% from RMB93.5 billion as of December 31, 2013 to RMB113.8 billion as of December 31, 2014, and further increased by 76.2% to RMB200.5 billion as of December 31, 2015, primarily due to (i) continued growth in our treasury business, and (ii) our increased lending to banks and other financial institutions based on the funding needs on the interbank market. Placements with banks and other financial institutions increased by 28.5% from RMB200.5 billion as of December 31, 2015 to RMB257.7 billion as of March 31, 2016, primarily because we increased our interbank lending based on our liquidity management strategies.

Our financial assets held under resale agreements are cash prepaid for purchases of bank acceptance bills, debt securities and loans held under resale agreements. Our financial assets held under resale agreements increased by 44.0% from RMB387.2 billion as of December 31, 2013 to RMB557.5 billion as of December 31, 2014, primarily due to our increased holding of bills under resale agreements when the market interest rates remained high. Our financial assets held under resale agreements decreased 73.3% from RMB557.5 billion as of December 31, 2014 to RMB148.9 billion as of December 31, 2015, primarily due to a decrease in our holding of bills under resale agreements as a result of our strengthened risk management measures on discounted bills. Financial assets held under resale agreements increased by 104.2% from RMB148.9 billion as of December 31, 2015 to RMB304.0 billion as of March 31, 2016, primarily because we increased such assets based on our liquidity management strategies while implementing solid risk management measures.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities increased by 12.5% from RMB5,433.4 billion as of December 31, 2013 to RMB6,110.4 billion as of December 31, 2014, and further increased by 15.0% to RMB7,025.5 billion as of December 31, 2015. As of March 31, 2016, our total liabilities amounted to RMB7,433.8 billion. Our liabilities consist primarily of (i) customer deposits, (ii) deposits and placements from banks and other financial institutions, (iii) financial assets sold under repurchase agreements, and (iv) debt securities we issued, representing 90.6%, 3.7%, 3.7% and 0.3% of our total liabilities as of March 31, 2016, respectively.

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Customer deposits	5,206,468	95.8%	5,802,946	94.9%	6,305,014	89.7%	6,732,381	90.6%
Deposits from banks and other financial institutions	25,160	0.5	40,619	0.7	91,351	1.3	196,671	2.6
Placements from banks and other financial institutions	12,255	0.2	18,264	0.3	70,859	1.0	75,120	1.0
Financial assets sold under repurchase agreements	75,494	1.4	115,918	1.9	394,817	5.6	275,063	3.7
Debt securities issued	—	—	—	—	24,973	0.4	24,974	0.3
Other liabilities[1]	114,027	2.1	132,669	2.2	138,519	2.0	129,621	1.8
Total liabilities	**5,433,404**	**100.0%**	**6,110,416**	**100.0%**	**7,025,533**	**100.0%**	**7,433,830**	**100.0%**

(1) Consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, interest payable, payables for agency services, employee benefit payable, taxes payable and other liabilities.

Customer Deposits

During the Track Record Period, customer deposits were our primary source of funding. Our customer deposits accounted for 95.8%, 94.9%, 89.7% and 90.6% of our total liabilities as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. We provide demand and time deposit products to corporate and retail customers. The following table sets forth, as of the dates indicated, the deposits from corporate and retail customers by product type.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporates deposits								
Time	168,073	3.2%	216,405	3.7%	301,356	4.8%	293,490	4.4%
Demand	500,386	9.6	553,671	9.6	616,251	9.8	620,556	9.2
Subtotal	668,459	12.8	770,076	13.3	917,607	14.6	914,046	13.6
Personal deposits								
Time	2,745,815	52.8	3,131,696	54.0	3,335,615	52.9	3,678,472	54.6
Demand	1,791,734	34.4	1,900,625	32.7	2,051,015	32.5	2,139,019	31.8
Subtotal	4,537,549	87.2	5,032,321	86.7	5,386,630	85.4	5,817,491	86.4
Other deposits[1]	460	0.0	549	0.0	777	0.0	844	0.0
Total customers deposits	**5,206,468**	**100.0%**	**5,802,946**	**100.0%**	**6,305,014**	**100.0%**	**6,732,381**	**100.0%**

(1) Consists primarily of funds deposited with us for remittance, credit card deposits and outbound remittance.

Our customer deposits increased by 11.5% from RMB5,206.5 billion as of December 31, 2013 to RMB5,802.9 billion as of December 31, 2014, which further increased by 8.7% to RMB6,305.0 billion as of December 31, 2015, as a result of increases in both personal deposits and corporate deposits. As of March 31, 2016, our customer deposits amounted to RMB6,732.4 billion.

Our corporates deposits accounted for 12.8%, 13.3%, 14.6% and 13.6% of our total customer deposits as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Our corporates deposits increased by 15.2% from RMB668.5 billion as of December 31, 2013 to RMB770.1 billion as of December 31, 2014, which further increased by 19.2% to RMB917.6 billion as of December 31, 2015, primarily due to (i) our focus on continuously marketing to core customers (including government agencies, state-owned enterprises, small and micro enterprises) to obtain stable deposits, and (ii) favorable effects of our customer management and marketing efforts based on customer segmentation. As of March 31, 2016, our corporates deposits amounted to RMB914.0 billion.

During the Track Record Period, personal deposits were the largest component of our customer deposits, representing 87.2%, 86.7%, 85.4% and 86.4% of our total customer deposits as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Our personal deposits increased by 10.9% from RMB4,537.5 billion as of December 31, 2013 to RMB5,032.3 billion as of December 31, 2014, which further increased by 7.0% to RMB5,386.6 billion as of December 31, 2015. As of March 31, 2016, our personal deposits amounted to RMB5,817.5 billion. Our personal deposits increased from December 31, 2013 to March 31, 2016 primarily because we continually developed our personal banking business and increased marketing efforts to maintain our leading position in the deposit-taking business, leveraging our broad branch network and customer base.

Distribution of Deposits by Geographical Region

We classify the geographical distribution of deposits based on the location of the branch or sub-branch taking the deposits. The deposits taken by our branch or sub-branch are generally originated from the customers located in the same geographical areas. The following table sets forth, as of the dates indicated, the distribution of our customer deposits by geographical region.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head Office	446	0.0%	474	0.0%	589	0.0%	595	0.0%
Yangtze River Delta	757,220	14.5	849,515	14.6	918,196	14.6	987,657	14.7
Pearl River Delta	496,488	9.5	564,456	9.7	608,887	9.7	631,413	9.4
Bohai Rim	810,112	15.6	885,860	15.3	969,905	15.4	974,270	14.5
Central China	1,495,323	28.7	1,688,715	29.1	1,876,608	29.7	2,104,634	31.2
Western China	1,138,935	21.9	1,276,064	22.0	1,387,835	22.0	1,465,628	21.8
Northeastern China	507,944	9.8	537,862	9.3	543,494	8.6	568,184	8.4
Total customer deposits	**5,206,468**	**100.0%**	**5,802,946**	**100.0%**	**6,305,514**	**100.0%**	**6,732,381**	**100.0%**

Distribution of Deposits by Remaining Maturity

The following table sets forth, at the date indicated, the distribution of our customer deposits by remaining maturity.

	As of March 31, 2016											
	Repayable on demand		Due in less than 3 months		Due in over 3 months up to 12 months		Due in over 1 year up to 5 years		Due in more than 5 years			
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Total	% of total
	(in millions of RMB, except percentages)											
Corporate deposits												
Time	—	—	95,147	10.5%	152,020	5.9%	46,323	9.7%	—	—	293,490	4.4%
Demand	620,556	22.5%	—	—	—	—	—	—	—	—	620,556	9.2
Subtotal	620,556	22.5	95,147	10.5	152,020	5.9	46,323	9.7	—	—	914,046	13.6
Personal deposits												
Time	—	—	808,477	89.4	2,438,060	94.1	431,935	90.3	—	—	3,678,472	54.6
Demand	2,139,019	77.5	—	—	—	—	—	—	—	—	2,139,019	31.8
Subtotal	2,139,019	77.5	808,477	89.4	2,438,060	94.1	431,935	90.3	—	—	5,817,491	86.4
Other deposits(1)	—	—	844	0.1	—	—	—	—	—	—	844	0.0
Total customer deposits	**2,759,575**	**100.0%**	**904,468**	**100.0%**	**2,590,080**	**100.0%**	**478,258**	**100.0%**	**—**	**—**	**6,732,381**	**100.0%**

(1) Consists primarily of funds deposited with us for remittance, credit card deposits and outbound remittance.

Distribution of Corporate Deposits by Size

The following table sets forth, as of the dates indicated, the distribution of our corporate deposits, in terms of balance of deposits with a single account, by size of the deposits.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Up to RMB500,000 (inclusive)...	13,622	2.0%	13,692	1.8%	14,669	1.6%	14,199	1.6%
Over RMB500,000 to RMB1 million(inclusive)..................	9,442	1.4	9,958	1.3	10,565	1.1	10,365	1.1
Over RMB1 million to RMB10 million (inclusive)	106,811	16.0	115,151	14.9	117,158	12.8	116,680	12.8
Over RMB10 million to RMB50 million (inclusive)	201,667	30.2	217,614	28.3	228,288	24.9	233,280	25.5
Over RMB50 million to RMB100 million (inclusive)...	111,182	16.6	128,476	16.7	137,551	15.0	132,551	14.5
Over RMB100 million to RMB500 million (inclusive)...	177,387	26.6	217,310	28.2	254,898	27.8	271,305	29.7
Over RMB500 million...............	48,348	7.2	67,875	8.8	154,478	16.8	135,666	14.8
Total corporate deposits.......	**668,459**	**100.0%**	**770,076**	**100.0%**	**917,607**	**100.0%**	**914,046**	**100.0%**

Distribution of Personal Deposits by Size

The following table sets forth, as of the dates indicated, the distribution of our personal deposits, in terms of balance of deposits from a single account, by size of the deposits.

	As of December 31,						As of March 31,	
	2013		2014		2015		2016	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Less than RMB100,000 (inclusive)	3,482,786	76.8%	3,841,455	76.2%	4,023,484	74.7%	4,178,564	71.9%
RMB100,000 or more up to RMB300,000 (inclusive)	695,082	15.3	807,807	16.1	933,240	17.3	1,093,821	18.8
RMB300,000 or more up to RMB500,000 (inclusive)	135,857	3.0	148,776	3.0	174,704	3.2	217,655	3.7
RMB500,000 or more up to RMB1 million (inclusive)	114,614	2.5	120,264	2.4	131,874	2.5	163,713	2.8
More than RMB1 million...........	109,210	2.4	114,019	2.3	123,328	2.3	163,738	2.8
Total personal deposits	**4,537,549**	**100.0%**	**5,032,321**	**100.0%**	**5,386,630**	**100.0%**	**5,817,491**	**100.0%**

Other Components of Our Liabilities

Other components of our liabilities consist of (i) deposits from banks and other financial institutions, (ii) placements from banks and other financial institutions, (iii) financial assets sold under repurchase agreements, (iv) debt securities issued, and (v) certain other liabilities.

Our deposits from banks and other financial institutions increased by 61.4% from RMB25.2 billion as of December 31, 2013 to RMB40.6 billion as of December 31, 2014, which further increased by 124.9% to RMB91.4 billion as of December 31, 2015. As of March 31, 2016, our deposits from banks and other financial institutions amounted to RMB196.7 billion. The increase in our deposits from banks and other financial institutions from December 31, 2013 to March 31, 2016 was primarily due to our increased deposits from banks to achieve our goals of asset and liability management to maintain a growth in our liabilities commensurate with our assets.

Placements from banks and other financial institutions consist primarily of money market borrowings. Our placements from banks and other financial institutions increased by 49.0% from RMB12.3 billion as of December 31, 2013 to RMB18.3 billion as of December 31, 2014, which further significantly increased to RMB70.9 billion as of December 31, 2015, primarily due to our increased placements from banks and other financial institutions to achieve our goals of asset and liability management. As of March 31, 2016, our placements from banks and other financial institutions amounted to RMB75.1 billion.

Our financial assets sold under repurchase agreements increased by 53.5% from RMB75.5 billion as of December 31, 2013 to RMB115.9 billion as of December 31, 2014, which further significantly increased to RMB394.8 billion as of December 31, 2015. As of March 31, 2016, our financial assets sold under repurchase agreements amounted to RMB275.1 billion, a decrease of 30.3% from RMB394.8 billion as of December 31, 2015, primarily because certain financial assets sold under repurchase agreements became due.

Our debt securities issued consist of tier-2 capital bonds we issued in September 2015. On September 9, 2015, we issued 10-year term fixed rate tier-2 capital bonds in a principal amount of RMB25.0 billion at a coupon rate of 4.5% per annum, which is accrued on an annual basis.

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes, included in Appendix I to this prospectus. Our historical financial information 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.

OVERVIEW

We are a leading retail bank in China with the largest distribution network, largest customer base and superior asset quality. Established in 2007, we are the youngest Large Commercial Bank and have significant growth potential. As of March 31, 2016, we had total assets of RMB7,707.6 billion, total deposits of RMB6,732.4 billion and total loans (before taking into account the related allowance for impairment losses) of RMB2,665.8 billion, ranking fifth, fifth and seventh among PRC commercial banks, respectively. According to *The Banker's* list of "Top 1000 World Banks," we ranked 22nd in the world in terms of total assets as of December 31, 2015.

GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our assets quality, financial position and results of operations have been and will continue to be influnced by China's and global economic and financial market conditions.

Economic Conditions of the PRC

According to data released by the NBS, from 2010 to 2015, China's nominal GDP grew at a CAGR of 10.6%. In addition, according to the PBOC, from 2010 to 2015, total RMB-denominated loans extended by and RMB-denominated deposits with China's banking institutions grew at a CAGR of 14.4% and 13.6%, respectively. As of December 31, 2015, total assets of China's banking institutions reached RMB199.3 trillion, with a CAGR of 15.9% from 2010 to 2015. China's economic growth and increased corporate activities have led to significant increases in individual wealth, with per capita annual disposable income of PRC residents increasing from RMB10,046 in 2010 to RMB21,966 in 2015 at a CAGR of 16.9%. Increased levels of corporate activities and personal wealth have also further contributed to the rapid development of corporate and retail banking businesses of PRC commercial banks. The continuous development of rural areas and urbanization have led to a significant increase in demand for banking products and services in the County Areas.

After more than three decades of rapid development, China's economy has entered a New Normal. In 2015, China's real GDP growth rate was 6.9%. The slowdown of growth in China's economy and certain industries may affect the results of operations and financial position of PRC commercial banks.

In recent years, the PRC government has implemented a series of macroeconomic and financial policies, including (i) adjusting the benchmark interest rates and statutory deposit reserve ratio for deposits with the PBOC applicable to commercial banks, as well as pushing forward the liberalization of interest rates; (ii) promoting the growth of certain industries or controlling the growth of over-capacity industries by issuing industry development guidelines; and (iii) implementing policy framework for the macro prudential assessment (MPA) and performing comprehensive assessment on the systemic risks of the banking industry based on various indicators including capital adequacy ratio, liquidity, pricing of interest rate, assets quality. For example, the PBOC lowered the statutory deposit reserve ratio five times by an aggregate of 300 basis points for all deposit-taking financial institutions since 2015 and also applied different statutory deposit reserve ratios to certain financial institutions, which increased the overall liquidity of the financial market. For the recent changes in the benchmark interest rates and interest rate liberalization, see "— Interest Rate Environment." These macroeconomic and financial policies have 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 position of PRC commercial banks, including us.

Interest Rate Environment

Our operating income is largely derived from our net interest income. For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, our net interest income represented 95.7%, 96.5%, 94.0% and 87.8% of our total operating income, respectively. Net interest income is affected by interest rates which are affected by a number of factors, such as changes in China's and international political and economic conditions, as well as the PRC government's policies and regulations for the financial industry and banking industry.

In China, interest rates on RMB-denominated loans and deposits are set by commercial banks with reference to the benchmark interest rates on loans and deposits which are published and adjusted from time to time by the PBOC, as well as based on their own commercial considerations. The PBOC lowered the benchmark interest rates on RMB-denominated loans and deposits for several times in recent years. For example, the PBOC has cut benchmark interest rates for RMB-denominated loans and deposits for six consecutive times since November 2014. For more details, see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits." In recent years, interest rate liberalization has been accelerating in the PRC banking industry. Effective June 8, 2012, the PBOC allowed financial institutions to set interest rates on RMB-denominated deposits up to 110% of the PBOC benchmark rates. 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 to set interest rates based on commercial considerations. The interest rates on RMB-denominated deposits were subsequently raised to a limit of 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 cap on the interest rates on RMB-denominated time deposits with a term longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with a term less than one year remained unchanged. Furthermore, effective October 24, 2015, the PBOC fully removed the cap on interest rates on deposits and allowed financial institutions in the PRC to set interest rates on deposits based on commercial considerations. The liberalization of interest rates may intensify competition in the PRC banking industry, thereby affecting our business, results of operations and financial position.

Exchange Rate Environment

The value of the Renminbi against the U.S. dollar and other currencies is affected by a number of factors, such as changes in China's and international political and economic conditions and the monetary policies prescribed by the PRC government. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and with reference to a basket of currencies. The PRC government further adjusted its exchange rate system in 2012 and 2014. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the mid-point price of Renminbi to the U.S. dollar, which allows traders to consider the closing exchange rate on the interbank foreign exchange market in the previous trading day and take into account supply and demand on the market and changes in exchange rates of major international currencies when they quote the mid-point price for Renminbi against the U.S. dollar. With the development of foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may further reform the exchange rate system in the future.

Substantially all of our revenue and assets are denominated in Renminbi. As of March 31, 2016, 1.1% of our assets and 0.3% of our liabilities were denominated in foreign currencies. However, our foreign currency business may expand and, therefore, any appreciation of Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets or affect the financial position and ability to repay debts of certain of our customers, particularly those deriving substantial income from export related businesses, which may adversely affect our business and financial performance.

Regulatory Environment

The PRC banking industry is highly regulated. PRC commercial banks are mainly regulated by the PBOC and CBRC. In addition, PRC commercial banks are also subject to the supervision and regulation of other regulatory authorities, including the NDRC, MOF, CSRC, CIRC, SAFE, SAT, NAO and SAIC. See "Supervision and Regulation — Major Regulatory Authorities."

Our business, financial condition and results of operations are affected by changes in the PRC banking laws, regulations and policies such as the scope of business activities PRC commercial banks are permitted to engage in, interests and fees PRC commercial banks are allowed to charge, and restrictions imposed by regulatory authorities on PRC commercial banks in respect of credit extension to borrowers in specific industries or specific loan products. In addition, the PRC banking regulatory authorities have enhanced regulation on wealth management and interbank businesses of commercial banks in recent years, while restrictions on the asset securitization business have been relaxed. New regulations issued by regulatory authorities from time to time may impact our business, results of operations and financial position.

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

Recently, China has launched a number of initiatives to develop a multi-layered capital market and has encouraged enterprises to seek direct financing from the capital markets, which may affect the core businesses of PRC commercial banks. The deepening of China's debt capital markets may impact our lending business, as certain corporate borrowers may issue debt securities at lower costs to meet their financing needs and thus have lower demands for bank loans. On the other hand, the development of China's capital markets may present us with new opportunities to expand our fee- and commission-based businesses, such as our investment banking business and funds distribution, and broaden the scope of securities we may invest in.

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

Competitive Landscape in the PRC Banking Industry

The market-oriented liberalization in recent years has led to an increased level of competition in the PRC banking industry. We face competition from other banking institutions, including the other Large Commercial Banks, nationwide joint-stock commercial banks, City Commercial Banks, rural financial institutions, foreign banking institutions and other banking institutions. Many other PRC commercial banks compete with us in substantially the same markets for loan, deposit, as well as fee- and commission-based services. In recent years, a large number of commercial banks in the PRC have completed restructurings or public offerings, which have permitted them to obtain more sufficient funds to offer a larger number of innovative products and high quality services, and have afforded them greater adaptability in a changing market environment. The increased competition affects the pricing of our loans and deposits, as well as the pricing of and the growth in income from our fee- and commission-based services. See "Industry Overview" and "Business — Competition."

SELECTED FINANCIAL DATA

The following table sets forth, for the periods indicated, our consolidated results of operations.

	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(in millions of RMB)				
Interest income	242,145	281,780	300,561	75,234	72,269
Interest expense	(103,172)	(113,964)	(121,302)	(30,262)	(30,569)
Net interest income	**138,973**	**167,816**	**179,259**	**44,972**	**41,700**
Fee and commission income	11,682	13,112	16,272	4,019	5,001
Fee and commission expense	(5,717)	(6,633)	(7,600)	(1,835)	(2,038)
Net fee and commission income	**5,965**	**6,479**	**8,672**	**2,184**	**2,963**
Net trading gains/(losses)	(209)	128	275	(139)	563
Net gains/(losses) on investment securities	(252)	(1,325)	946	117	2,012
Other operating income[1]	757	777	1,481	296	276
Operating income	**145,234**	**173,875**	**190,633**	**47,430**	**47,514**
Operating expenses[2]	(101,466)	(114,126)	(123,610)	(28,510)	(31,103)
Impairment losses on assets	(8,674)	(20,412)	(25,635)	(4,806)	(2,128)
Profit before income tax	**35,094**	**39,337**	**41,388**	**14,114**	**14,283**
Income tax expenses	(5,426)	(6,770)	(6,531)	(2,858)	(1,796)
Net profit	**29,668**	**32,567**	**34,857**	**11,256**	**12,487**

(1) Consists primarily of government subsidies income, leasing income, net exchange gain and precious metal sales income.

(2) Consists primarily of deposit agency fees, staff costs, other general operating and administrative expenses, business tax and surcharges, depreciation and amortization and others.

The following table sets forth, for the periods indicated, selected financial ratios.

	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Profitability indicators					
Return on average total assets[1][2]	0.57%	0.55%	0.51%	0.71%	0.67%
Return on average net assets[1][3]	23.19%	19.80%	15.20%	23.63%	18.44%
Net interest spread[1][4]	2.66%	2.87%	2.71%	2.86%	2.36%
Net interest margin[1][5]	2.67%	2.92%	2.78%	2.92%	2.35%
Net fee and commission income to operating income	4.11%	3.73%	4.55%	4.60%	6.24%
Cost-to-income ratio[6]	65.6%	60.9%	60.7%	56.1%	61.1%

(1) On an annualized basis with respect to the data for the three months ended March 31, 2015 and 2016.

(2) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.

(3) Represents net profit for the period as a percentage of average balance of total equity at the beginning and the end of the period.

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

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

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

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

	As of December 31,			As of March 31,
	2013	2014	2015	2016
Capital adequacy indicators				
Core tier-1 capital adequacy ratio(1)	7.72%	8.44%	8.53%	8.35%
Tier-1 capital adequacy ratio(2)	7.72%	8.44%	8.53%	8.35%
Capital adequacy ratio(3)	8.84%	9.56%	10.46%	10.26%
Total equity to total assets	2.53%	2.98%	3.71%	3.55%
Asset quality indicators				
Non-performing loan ratio(4)	0.51%	0.64%	0.80%	0.81%
Allowance coverage ratio(5)	382.94%	364.10%	298.15%	286.71%
Allowance to gross loans(6)	1.97%	2.33%	2.40%	2.31%
Other indicators				
Loan-to-deposit ratio(7)	28.67%	32.32%	39.20%	39.60%

(1) Calculated by dividing core tier-1 capital, net of core tier-1 capital deductions, by risk-weighted assets. For the components of core tier-1 capital, core tier-1 capital deductions and risk-weighted assets under the Capital Administrative Measures (Provisional), see "Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards over Capital Adequacy Level" and "— Capital Resources — Capital Adequacy."

(2) Calculated by dividing tier-1 capital, net of tier-1 capital deductions, by risk-weighted assets. For the components of tier-1 capital, tier-1 capital deductions and risk-weighted assets under the Capital Administrative Measures (Provisional), see "Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards over Capital Adequacy Level" 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 (Provisional), see "Supervision and Regulation — Supervision over Capital Adequacy — Latest CBRC Supervisory Standards over Capital Adequacy Level" and "— Capital Resources — Capital Adequacy."

(4) Calculated by dividing total non-performing loans by the gross loans to customers.

(5) Calculated by dividing total allowance for impairment losses on loans by total NPLs.

(6) Calculated by dividing total allowance for impairment losses on loans by gross loans to customers.

(7) Calculated by dividing total loans and advances to customers by total customer deposits.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2016

The following table sets forth, for the periods indicated, our consolidated results of operations.

	For the three months ended March 31,	
	2015	**2016**
	(unaudited)	
	(in millions of RMB)	
Interest income	75,234	72,269
Interest expense	(30,262)	(30,569)
Net interest income	**44,972**	**41,700**
Fee and commission income	4,019	5,001
Fee and commission expense	(1,835)	(2,038)
Net fee and commission income	**2,184**	**2,963**
Net trading gains/(losses)	(139)	563
Securities investment gains/(losses)	117	2,012
Other business income [(1)]	296	276
Operating income	**47,430**	**47,514**
Operating expenses [(2)]	(28,510)	(31,103)
Impairment losses on assets	(4,806)	(2,128)
Profit before income tax	**14,114**	**14,283**
Income tax expense	(2,858)	(1,796)
Net profit	**11,256**	**12,487**

(1) Consists primarily of government subsidies income, leasing income, net exchange gain and precious metal sales income.

(2) Consists primarily of deposit agency fees, staff costs, other general operating and administrative expenses, business tax and surcharges, depreciation and amortization and others.

Our net profit increased by 10.9% from RMB11.3 billion for the three months ended March 31, 2015 to RMB12.5 billion for the three months ended March 31, 2016, primarily due to increases in net gains on investment securities, net fee and commission income and net trading gains and decreases in impairment losses on assets and income tax expenses, which were partially offset by a decrease in net interest income and an increase in operating expenses.

Net interest income

The net interest income is the largest component of our operating income, representing 94.8% and 87.8% of our operating income for the three months ended March 31, 2015 and 2016, respectively.

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Interest income	75,234	72,269
Interest expense	(30,262)	(30,569)
Net interest income	**44,972**	**41,700**

Our net interest income decreased by 7.3% from RMB45.0 billion for the three months ended March 31, 2015 to RMB41.7 billion for the three months ended March 31, 2016, primarily due to a decrease in the interest income and an increase in the interest expense.

The table below sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for interest-earning assets) or average costs (for interest-bearing liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest earning assets, non-interest bearing liabilities and the allowance for impairment losses are the average of the balances as of January 1 and March 31 for the three months ended March 31, 2015 and 2016, respectively.

	For the three months ended March 31,					
	2015			2016		
	Average balance	Interest income	Average yield[(1)]	Average balance	Interest income	Average yield [(1)]
	(unaudited)					
	(in millions of RMB, except percentages)					
Assets						
Gross loans to customers	2,015,017	32,903	6.62%	2,606,931	33,550	5.18%
Fixed income investments [(2)]	1,584,003	18,580	4.76	2,714,463	27,286	4.04
Deposits with central bank [(3)]	1,347,668	6,211	1.87	1,156,520	4,577	1.59
Amounts due from banks and other financial institutions [(4)]	1,295,199	17,540	5.49	663,639	6,856	4.16
Total interest-earning assets	**6,241,887**	**75,234**	**4.89%**	**7,141,553**	**72,269**	**4.07%**
Allowance for impairment losses	(49,618)			(65,165)		
Non-interest earning assets [(5)]	98,408			385,232		
Total assets	**6,290,677**			**7,461,620**		

	For the three months ended March 31,					
	2015			2016		
	Average balance	Interest expense	Average cost[(1)]	Average balance	Interest expense	Average cost [(1)]
	(unaudited)					
	(in millions of RMB, except percentages)					
Liabilities						
Customer deposits	5,942,426	29,321	2.00%	6,489,937	25,902	1.61%
Amounts due to banks and other financial institutions [(6)]	109,953	941	3.47	657,995	4,387	2.68
Debt securities issued [(7)]	—	—	—	25,000	280	4.50
Total interest-bearing liabilities	**6,052,379**	**30,262**	**2.03%**	**7,172,932**	**30,569**	**1.71%**
Non-interest bearing liabilities [(8)]	120,332			127,632		
Total liabilities	**6,172,711**			**7,300,564**		
Net interest income		**44,972**			**41,700**	
Net interest spread [(9)]			**2.86%**			**2.36%**
Net interest margin [(10)]			**2.92%**			**2.35%**

(1) Calculated on an annualized basis.

(2) Consists of our holdings of fixed income investments classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

(3) Consists of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits.

(4) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.

(5) Consists primarily of cash, property and equipment, equity interests of non-listed companies, derivative financial assets, interest receivables, receivables and prepayments, deferred tax assets and other assets.

(6) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.

(7) Consists of tier-2 capital bonds issued.

(8) Consists primarily of derivative financial liabilities, employee benefits payable, payables for agency services, taxes payable, interest payable and other liabilities.

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

(10) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the 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 rate.

	For the three months ended March 31,		
	2016 vs. 2015		
	Increase/(decrease) due to		Net increase/
	Volume[1]	Rate[2]	(decrease)[3]
	(unaudited)		
	(in millions of RMB)		
Assets			
Gross loans to customers	7,903	(7,256)	647
Fixed income investments [4]	11,724	(3,018)	8,706
Deposits with central bank [5]	(698)	(936)	(1,634)
Amounts due from banks and other financial institutions [6]	(6,114)	(4,570)	(10,684)
Changes in interest income	**12,815**	**(15,780)**	**(2,965)**
Liabilities			
Customer deposits	2,446	(5,865)	(3,419)
Amounts due to banks and other financial institutions [7]	3,665	(219)	3,446
Debt securities issued [8]	280	—	280
Changes in interest expense	**6,391**	**(6,084)**	**307**
Changes in net interest income	**6,424**	**(9,696)**	**(3,272)**

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the period.
(2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the previous period.
(3) Represents interest income/expense for the period minus interest income/expense for the previous period.
(4) Consists of our holdings of fixed income investments classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.
(5) Consists of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits.
(6) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.
(7) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.
(8) Consists of tier-2 capital bonds issued.

Interest Income

Our interest income decreased by 3.9% from RMB75.2 billion for the three months ended March 31, 2015 to RMB72.3 billion for the three months ended March 31, 2016, primarily due to a decrease in the average yield on our interest-earning assets from 4.89% for the three months ended March 31, 2015 to 4.07% for the three months ended March 31, 2016, which was partially offset by an increase of 14.4% in the average balance of our interest-earning assets from RMB6,241.9 billion for the three months ended March 31, 2015 to RMB7,141.6 billion for the three months ended March 31, 2016. The decrease in the average yield on our interest-earning assets primarily reflected decreased average yields on loans to customers, amounts due from banks and other financial institutions and fixed income investments attributable to the consecutive interest rate cuts by the PBOC in 2015 and adequate liquidity in the interbank market. The increase in the average balance of our interest-earning assets was primarily due to increased average balances of loans to customers and fixed income investments.

Interest Income from Loans to Customers

Interest income from loans to customers is the largest component of our interest income, representing 43.7% and 46.4% of our interest income for the three months ended March 31, 2015 and 2016, respectively.

The following table sets forth, for the periods indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the three months ended March 31,					
	2015			2016		
	Average balance	Interest income	Average yield(1)	Average balance	Interest income	Average yield(1)
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate loans	849,616	12,429	5.93%	1,008,632	11,851	4.73%
Discounted bills	154,245	2,162	5.68	335,792	2,998	3.59
Personal loans	1,011,156	18,312	7.34	1,262,507	18,701	5.96
Total loans to customers	**2,015,017**	**32,903**	**6.62%**	**2,606,931**	**33,550**	**5.18%**

(1) Calculated on an annualized basis.

Our interest income from loans to customers increased by 2.0% from RMB32.9 billion for the three months ended March 31, 2015 to RMB33.6 billion for the three months ended March 31, 2016, primarily due to an increase in the average balance of our total loans to customers, which was partially offset by a decrease in the average yield on loans to customers. The average balance of our total loans to customers increased by 29.4% from RMB2,015.0 billion for the three months ended March 31, 2015 to RMB2,606.9 billion for the three months ended March 31, 2016, reflecting the overall growth in our loan portfolio. The average yield on our loans to customers decreased from 6.62% for the three months ended March 31, 2015 to 5.18% for the three months ended March 31, 2016, primarily due to the lower interest rates charged on loans extended or repriced in the first quarter of 2016 than those in the first quarter of 2015 due to consecutive cuts in the benchmark interest rates for loans by the PBOC in 2015.

For the three months ended March 31, 2015 and 2016, interest income from personal loans accounted for 55.7% and 55.7% of our total interest income from loans to customers, respectively, and interest income from corporate loans accounted for 37.8% and 35.3% of our total interest income from loans to customers, respectively.

Personal loans. Interest income from personal loans increased by 2.1% from RMB18.3 billion for the three months ended March 31, 2015 to RMB18.7 billion for the three months ended March 31, 2016, primarily due to an increase in the average balance of our personal loans, which was partially offset by a decrease in the average yield on our personal loans. The average balance of our personal loans increased by 24.9% from RMB1,011.2 billion for the three months ended March 31, 2015 to RMB1,262.5 billion for the three months ended March 31, 2016, primarily attributable to the growth of our consumer loans (including residential mortgage loans and other consumer loans) which reflected our continued implementation of our retail banking development strategy and the increased customer demand for such products. The average yield on our personal loans decreased from 7.34% for the three months ended March 31, 2015 to 5.96% for the three months ended March 31, 2016, primarily due to the lower interest rates charged on loans extended or repriced in the first quarter of 2016 than those in the first quarter of 2015 due to consecutive cuts in the benchmark interest rates for loans by the PBOC in 2015.

Corporate Loans. Our interest income from corporate loans decreased by 4.7% from RMB12.4 billion for the three months ended March 31, 2015 to RMB11.9 billion for the three months ended March 31, 2016, primarily due to a decrease in the average yield on our corporate loans, which was partially offset by an increase in the average balance in our corporate loans. The average yield on our corporate loans decreased from 5.93% for the three months ended March 31, 2015 to 4.73% for the three months ended March 31, 2016, primarily due to the lower interest rates charged on loans extended or repriced in the first quarter of 2016 than those in the first quarter of 2015 due to consecutive cuts in the benchmark interest rates for loans by the PBOC in 2015. The average balance of our corporate loans increased by 18.7% from RMB849.6 billion for the three months ended March 31, 2015 to RMB1,008.6 billion for the three months ended March 31, 2016, reflecting our continued efforts to develop our corporate banking business and the steady growth in our corporate loans.

Discounted Bills. Our interest income from discounted bills increased by 38.7% from RMB2,162 million for the three months ended March 31, 2015 to RMB2,998 million for the three months ended March 31, 2016, primarily due to an increase in the average balance of discounted bills, which was partially offset by a decrease in the average yield on discounted bills. The average balance of discounted bills increased by 117.7% from RMB154.2 billion for the three months ended March 31, 2015 to RMB335.8 billion for the three months ended March 31, 2016, primarily attributable to a rapid growth in our discounted bill business and increased customer demand for such products. The average yield of discounted bills decreased from 5.68% for the three months ended March 31, 2015 to 3.59% for the three months ended March 31, 2016, primarily reflecting the continued decline in the market interest rates for discounted bills in recent years.

Interest Income from Fixed Income Investments

Our interest income from fixed income investments consists of interest income from our holdings of fixed income investments which are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables in our investment portfolio. Interest income from fixed income investments represented 24.7% and 37.8% of our interest income for the three months ended March 31, 2015 and 2016, respectively.

Our interest income from fixed income investments increased by 46.9% from RMB18.6 billion for the three months ended March 31, 2015 to RMB27.3 billion for the three months ended March 31, 2016, primarily due to an increase in the average balance of fixed income investments, which was partially offset by a decrease in the average yield. The average balance of our fixed income investments increased by 71.4% from RMB1,584.0 billion for the three months ended March 31, 2015 to RMB2,714.5 billion for the three months ended March 31, 2016, primarily due to our investments in the long-term special financial bonds issued by China Development Bank and Agricultural Development Bank with an aggregate principal amount of RMB778.0 billion in the second half of 2015. The average yield on our fixed income decreased from 4.76% for the three months ended March 31, 2015 to 4.04% for the three months ended March 31, 2016, primarily because (i) the yield on our debt securities with floating interest rates declined due to consecutive cuts in benchmark interest rates by the PBOC in 2015, and (ii) the returns on the debt securities and interbank investment products in which we invested in the first quarter of 2016 were lower than those in the first quarter of 2015 as a result of the decreased market interest rates.

Interest Income from Deposits with Central Bank

Our interest-earning deposits with central bank consist of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits with the PBOC. Our interest income from deposits with central bank for the three months ended March 31, 2015 and 2016 accounted for 8.3% and 6.3% of our interest income, respectively.

Our interest income from deposits with central bank decreased by 26.3% from RMB6,211 million for the three months ended March 31, 2015 to RMB4,577 million for the three months ended March 31, 2016, primarily due to a decrease in the average yield and, to a lesser extent, due to a decrease in the average balance of our deposits with central bank. The average yield on our deposits with central bank decreased from 1.87% for the three months ended March 31, 2015 to 1.59% for the three months ended March 31, 2016, primarily because all of our special deposits with the PBOC, which carried relatively high interest rates, became due in 2015. The average balance of our deposits with central bank decreased by 14.2% from RMB1,347.7 billion for the three months ended March 31, 2015 to RMB1,156.5 billion for the three months ended March 31, 2016, primarily because (i) all of our special deposits with the PBOC became due in 2015, and (ii) the PBOC consecutively lowered the statutory reserve ratio in 2015.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Amounts due from banks and other financial institutions consist of deposits with banks and other financial institutions, interest income from financial assets held under resale agreements and interest income from placements with banks and other financial institutions. Interest income from amounts due from banks and other financial institutions accounted for 23.3% and 9.5% of our interest income for the three months ended March 31, 2015 and 2016, respectively.

Interest income from amounts due from banks and other financial institutions decreased by 60.9% from RMB17.5 billion for the three months ended March 31, 2015 to RMB6.9 billion for the three months ended March 31, 2016, primarily due to a decrease in the average balance and, to a lesser extent, due to a decrease in the average yield on amounts due from banks and other financial institutions. The average balance of amounts from banks and other financial institutions decreased by 48.8% from RMB1,295.2 billion for the three months ended March 31, 2015 to RMB663.6 billion for the three months ended March 31, 2016, primarily because (i) we allocated the funds of a portion of amounts due from banks and other financial institutions upon maturity in the second half of 2015 on the assets with higher returns in light of the relatively low interest rates in the money market, and (ii) the funding needs of banks and other financial institutions declined attributable to the adequate market liquidity. The average yield on amounts due from banks and other financial institutions decreased from 5.49% for the three months ended March 31, 2015 to 4.16% for the three months ended March 31, 2016, primarily due to (i) the decreased interbank market interest rates which reflected the consecutive cuts in benchmark interest rates by the PBOC in 2015 and adequate market liquidity, and (ii) the maturity of the deposits with banks and other financial institutions with high returns in 2015.

Interest Expense

Our interest expense increased by 1.0% from RMB30.3 billion for the three months ended March 31, 2015 to RMB30.6 billion for the three months ended March 31, 2016, primarily due to an increase of 18.5% in the average balance of interest-bearing liabilities from RMB6,052.4 billion for the three months ended March 31, 2015 to RMB7,172.9 billion for the three months ended March 31, 2016, which was partially offset by a decrease in the average cost for interest-bearing liabilities from 2.03% for the three months ended March 31, 2015 to 1.71% for the three months ended March 31, 2016.

Interest Expense on Customer Deposits

Interest expense on customer deposits is the largest component of our interest expense. Interest expense on customer deposits represented 96.9% and 84.7% of our total interest expense for the three months ended March 31, 2015 and 2016, respectively.

The following table sets forth, for the periods indicated, the average balance, interest expense and average cost of our corporate and personal deposits by product type.

	For the three months ended March 31,					
	2015			2016		
	Average balance	Interest expense	Average cost[(1)]	Average balance	Interest expense	Average cost[(1)]
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	225,700	1,848	3.32%	286,930	1,813	2.54%
Demand	536,490	633	0.48	613,385	1,029	0.67
Subtotal	762,190	2,481	1.32	900,315	2,842	1.27
Personal deposits						
Time	3,268,022	25,162	3.12	3,512,880	21,486	2.46
Demand[(2)]	1,912,214	1,678	0.36	2,076,742	1,574	0.30
Subtotal	5,180,236	26,840	2.10	5,589,622	23,060	1.66
Total customer deposits	**5,942,426**	**29,321**	**2.00%**	**6,489,937**	**25,902**	**1.61%**

(1) Calculated on an annualized basis.

(2) Including credit card deposits.

Our interest expense on customer deposits decreased by 11.7% from RMB29.3 billion for the three months ended March 31, 2015 to RMB25.9 billion for the three months ended March 31, 2016, primarily due to a decrease in the average cost of customer deposits, which was partially offset by an increase in the average balance of customer deposits. The average cost of our customer deposits decreased from 2.00% for the three months ended March 31, 2015 to 1.61% for the three months ended March 31, 2016, primarily due to the effect of consecutive cuts in benchmark interest rates by the PBOC in 2015, which was partially offset by higher deposit interest rates offered by us than benchmark interest rates in response to the market competition. The average balance of our customer deposits increased by 9.2% from RMB5,942.4 billion for the three months ended March 31, 2015 to RMB6,489.9 billion for the three months ended March 31, 2016, primarily reflecting the stable growth in both personal and corporate deposits as a result of the continued development of our businesses.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Amounts due to banks and other financial institutions consist primarily of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions. Interest expense on amounts due to banks and other financial institutions represented 3.1% and 14.4% of our interest expense for the three months ended March 31, 2015 and 2016, respectively.

Our interest expense on amounts due to banks and other financial institutions increased from RMB941 million for the three months ended March 31, 2015 to RMB4,387 million for the three months ended March 31, 2016, primarily due to an increase in the average balance of amounts due to banks and other financial institutions, which was partially offset by a decrease in the average cost. The average balance on amounts due to banks and other financial institutions increased from RMB110.0 billion for the three months ended March 31, 2015 to RMB658.0 billion for the three months ended March 31, 2016, primarily due to (i) our increased interbank borrowing to maintain a growth in our liabilities commensurate with our assets, and (ii) an increase in long-term borrowings for the purpose of liquidity management. The average cost on amounts due to banks and other financial institutions decreased from 3.47% for the three months ended March 31, 2015 to 2.68% for the three months ended March 31, 2016, primarily due to decreased interest rates in the interbank market attributable to the adequate market liquidity and the consecutive interest rate cuts by the PBOC in 2015.

Interest Expense on Debt Securities Issued

For the three months ended March 31, 2015, we had no debt securities issued. Interest expense on debt securities issued amounted to RMB280 million for the three months ended March 31, 2016, primarily due to our issuance of tier-2 capital bonds in an aggregate principal amount of RMB25.0 billion on September 9, 2015. See “Assets and Liabilities — Liabilities and Sources of Funds — Other Components of Our Liabilities.”

Net Interest Spread and Net Interest Margin

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

Our net interest spread decreased from 2.86% for the three months ended March 31, 2015 to 2.36% for the three months ended March 31, 2016 because the average yield on our interest-earning assets decreased by 82 basis points, which was higher than the decrease of 32 basis points of the average cost on our interest-bearing liabilities, reflecting that the PBOC consecutively cut the benchmark interest rates and we raised deposit interest rates in response to the market competition. Our net interest margin decreased from 2.92% for the three months ended March 31, 2015 to 2.35% for the three months ended March 31, 2016, primarily because our net interest income decreased whereas the average balance of our interest-earning assets continued to grow. The decrease in our net interest income was primarily due to a decrease in the interest income from amounts due from banks and other financial institutions attributable to the consecutive cuts in the benchmark interest rates by the PBOC in 2015 and the adequate market liquidity. Such decrease was partially offset by increases in the interest income from our fixed income investments and loans to customers. Despite the growth in our loans to customers, the growth rate of the interest income from our loans to customers slowed down due to the consecutive cuts in the benchmark interest rates by the PBOC.

Net Fee and Commission Income

For the three months ended March 31, 2015 and 2016, net fee and commission income accounted for 4.6% and 6.2% of our operating income, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Settlement and clearing fee income	1,477	1,496
Agency service fee income	597	1,012
Wealth management fee income	524	816
Bank card and POS fee income	1,077	1,230
Custodian business income	65	175
Others [(1)]	279	272
Subtotal	4,019	5,001
Fee and commission expenses	(1,835)	(2,038)
Net fee and commission income	**2,184**	**2,963**

(1) Consists of fee and commission income from text messaging service and other services.

Our net fee and commission income increased by 35.7% from RMB2,184 million for the three months ended March 31, 2015 to RMB2,963 million for the three months ended March 31, 2016, primarily due to the increases in agency service fee income, wealth management fee income, bank card and POS fee income and custodian business income.

Fee and Commission Income

Our fee and commission income increased by 24.4% from RMB4,019 million for the three months ended March 31, 2015 to RMB5,001 million for the three months ended March 31, 2016.

Settlement and Clearing Fee Income

Settlement and clearing fee income consists of fees earned on settlement and clearing services for institutions and individuals, primarily including fees on cross-region cash deposits and withdrawals, remittance fees, account service fees, and cross-bank transaction fees. Our settlement and clearing fee income remained stable and amounted to RMB1,477 million and RMB1,496 million for the three months ended March 31, 2015 and 2016, respectively.

Agency Fee Income

Agency fee income consists primarily of fees earned on agency services provided for bancassurance, funds, government bonds and collection and payment agency services. Our agency service fee income increased by 69.5% from RMB597 million for the three months ended March 31, 2015 to RMB1,012 million for the three months ended March 31, 2016, primarily due to an increase in insurance products that we distributed.

Wealth Management Service Fee Income

Wealth management service fee income consists primarily of fees and commission received for wealth management services provided to our corporate and retail customers. Wealth management service fee income increased by 55.7% from RMB524 million for the three months ended March 31, 2015 to RMB816 million for the three months ended March 31, 2016, primarily due to an increase in the number of wealth management products we issued.

Bank Card and POS Fee Income

Bank card and POS fee income consists primarily of annual fees on debit card and credit cards, fees for processing interbank transactions for the cards issued by other banks and transaction fees charged from merchants using our cards. Our bank card and POS fee income increased by 14.2% from RMB1,077 million for the three months ended March 31, 2015 to RMB1,230 million for the three months ended March 31, 2016, primarily due to an increase in the number of bank cards we issued and the increased transaction volume of bank cards.

Custodian Business Income

Custodian business income consists primarily of fees from our custody services provided for wealth management products, trust products, funds and insurance products under our custody. Custodian business income increased by 169.2% from RMB65 million for the three months ended March 31, 2015 to RMB175 million for the three months ended March 31, 2016, primarily due to an increase in the assets under our management as a result of our efforts to proactively develop our custodian business.

Other Service Fee Income

Other service fee income consists primarily of service fees charged for text messaging and other services. Other service fee income remained stable and amounted to RMB279 million and RMB272 million for the three months ended March 31, 2015 and 2016, respectively.

Fee and Commission Expenses

Fee and commission expenses consist primarily of expenses that we incurred for agency and settlement services, including fees we paid to China Post Group for its agency services. Our fee and commission expenses increased by 11.1% from RMB1,835 million for the three months ended March 31, 2015 to RMB2,038 million for the three months ended March 31, 2016, primarily due to an increase in the volume of financial products that China Post Group distributed for us. For more details about agency fees we paid China Post Group, see "Connected Transaction."

Net Trading Gains/(Losses)

Net gains/(losses) consist primarily of net realized and unrealized gains or losses on debt securities and derivative financial instruments we hold for trading. We recorded net trading loss of RMB139 million for the three months ended March 31, 2015, and net trading gain of RMB563 million for the three months ended March 31, 2016.

Net Gains/(Losses) on Investment Securities

Net gains/(losses) on investment securities consist primarily of net realized gains or losses on disposal of our available-for-sale financial assets. Our net gain on investment securities significantly increased from RMB117 million for the three months ended March 31, 2015 to RMB2,012 million for the three months ended March 31, 2016, primarily due to (i) an increase in gains on disposing of debt securities due to their increased market prices as a result of consecutive cuts in the benchmark interest rates by the PBOC, and (ii) gains on our investments in money market funds.

Other Operating Income

Other operating income consists primarily of government subsidies, leasing income, net exchange gains and precious metal sales income. Our other operating income decreased by 6.8% from RMB296 million for the three months ended March 31, 2015 to RMB276 million for the three months ended March 31, 2016.

Operating Expenses

The following table sets forth, for the periods indicated, the principal components of our operating expenses.

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Staff costs	8,173	8,361
Deposit agency fees	13,301	14,667
Other general operating and administrative expenses	3,459	4,205
Business taxes and surcharges	1,923	2,077
Depreciation and amortization	1,208	1,122
Others	446	671
Total operating expenses	**28,510**	**31,103**
Cost-to-income ratio[1]	**56.1%**	**61.1%**

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.

Our operating expenses increased by 9.1% from RMB28.5 billion for the three months ended March 31, 2015 to RMB31.1 billion for the three months ended March 31, 2016. For the three months ended March 31, 2015 and 2016, our cost-to-income ratio was 56.1% and 61.1%, respectively. Our cost-to-income ratio increased because the growth in our operating expenses outpaced the growth in in our operating income. The growth in our operating income for the three months ended March 31, 2016 compared to the same period of 2015 slowed down primarily due to the decrease in our interest income, reflecting the effects of consecutive cuts in benchmark interest rates by the PBOC and adequate market liquidity.

Staff Costs

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Wages and salaries, bonuses, allowances and subsidies	6,353	6,064
Social security contributions[(1)] and housing funds	1,294	1,711
Staff welfare	233	219
Labor union funds and employee education funds	133	177
Annuity scheme	159	185
Supplementary retirement benefits	1	5
Total staff costs	**8,173**	**8,361**

(1) Consists of medical insurance, work injury insurance, maternity insurance, basic pensions and unemployment insurance.

Staff costs increased by 2.3% from RMB8,173 million for the three months ended March 31, 2015 to RMB8,361 million for the three months ended March 31, 2016.

Wages and salaries, bonuses, allowances and subsidies were the largest component of our staff costs, accounting for 77.7% and 72.5% of our total staff costs, respectively, for the three months ended March 31, 2015 and 2016. Wages and salaries, bonuses, allowances and subsidies decreased by 4.5% from RMB6,353 million for the three months ended March 31, 2015 to RMB6,064 million for the three months ended March 31, 2016.

Social security contributions and housing funds accounted for 15.8% and 20.5% of our total staff costs, respectively, for the three months ended March 31, 2015 and 2016. Social security contributions consist of the compulsory social insurance contributions paid under the relevant laws and regulations and the supplementary medical insurance plan contributions we provide to employees. Social security contributions and housing funds increased by 32.2% from RMB1,294 million for the three months ended March 31, 2015 to RMB1,711 million for the three months ended March 31, 2016, primarily due to (i) an increase in the number of our employees, and (ii) the annual adjustment to benchmark rates of mandatory contributions for social security and housing funds.

Staff welfare consists primarily of employee health care expenses, expenses for staff activity facilities, staff allowance, retired staff activities expenses and comforts funds. Staff welfare decreased by 6.0% from RMB233 million for the three months ended March 31, 2015 to RMB219 million for the three months ended March 31, 2016.

Deposit Agency Fees

Deposit agency fees are fees we pay to China Post Group for its agency services for taking deposits denominated in Renminbi and foreign currencies on our behalf at agency outlets. For details about the agency fee arrangements between China Post Group and us, see "Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements — Agency Banking Businesses — (Q) Agency Banking Businesses of Agency Outlets." Deposit agency fees are the largest component of our operating expenses. For the three months ended March 31, 2015 and 2016, deposit agency fees accounted for 46.7% and 47.2% of our operating expenses, respectively. Deposit agency fees increased by 10.3% from RMB13.3 billion for the three months ended March 31, 2015 to RMB14.7 billion for the three months ended March 31, 2016, primarily reflecting the growth in customer deposits we took through agency outlets.

Other General Operating and Administrative Expenses

Other general operating and administrative expenses consist primarily of rental fees for business office space, advertising expenses, equipment operation and maintenance expenses and general office expenses. Our other general operating and administrative expenses increased by 21.6% from RMB3,459 million for the three months ended March 31, 2015 to RMB4,205 million for the three months ended March 31, 2016, primarily due to our overall business development.

Business Tax and Surcharges

During the Track Record Period, business tax was levied at 5% primarily on our gross interest income on certain loans and our gross fee and commission income. In addition, city construction and maintenance tax and education surcharges were levied with certain local governments. Business tax and surcharges increased by 8.0% from RMB1,923 million for the three months ended March 31, 2015 to RMB2,077 million for the three months ended March 31, 2016.

Depreciation and Amortization

Our depreciation and amortization expenses decreased by 7.1% from RMB1,208 million for the three months ended March 31, 2015 to RMB1,122 million for the three months ended March 31, 2016.

Impairment Losses on Assets

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

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Loans to customers	4,473	4,302
Placements with banks and other financial institutions	57	(1,518)
Investment classified as receivables	263	(695)
Other assets	13	39
Total	**4,806**	**2,128**

Provisions for impairment losses on assets decreased by 55.7% from RMB4,806 million for the three months ended March 31, 2015 to RMB2,128 million for the three months ended March 31, 2016, primarily due to (i) a write-back from allowance for placements with banks and other financial institutions and a write-back from allowance for impairment losses on investment classified as receivables, and (ii) a decrease in provisions for impairment losses on loans to customers.

Provisions for impairment losses on loans to customers decreased by 3.8% from RMB4,473 million for the three months ended March 31, 2015 to RMB4,302 million for the three months ended March 31, 2016, primarily due to a decrease in our provisions of collectively assessed allowance for our loan portfolio compared to that for the same period of 2015 because our loan portfolio moderately grew in the first quarter of 2016 and we controlled the scale of loan products with relatively high risks. For more details about changes in our allowance for impairment losses on loans to customers, see "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers."

Provisions for impairment losses on placements with banks and other financial institutions were RMB57 million for the three months ended March 31, 2015. We wrote back RMB1,518 million from allowance for impairment losses on placements with banks and other financial institutions for the three months ended March 31, 2016. We have been implementing prudent risk management for placements with banks and other financial institutions. We made collectively assessed allowance for such assets. In the first quarter of 2016, we reviewed and made the best estimates of the risk profiles of our placements with banks and other financial institutions based on historical default data we collected and determined to make a write-back from allowance we provisioned in the past years.

Provisions for impairment losses on investment classified as receivables was RMB263 million for the three months ended March 31, 2015. For the three months ended March 31, 2016, we had a write-back of RMB695 million from allowance for impairment losses on investment classified as receivables because a portion of investment classified as receivable became due.

Income Tax Expenses

The following table sets forth, for the periods indicated, the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before income tax and our actual income tax expenses.

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB, except percentages)	
Profit before income tax	**14,114**	**14,283**
Income tax calculated at the statutory tax rate of 25%	3,528	3,571
Tax effect of items not deductible for tax purpose (1)	105	5
Tax effect of income not taxable for tax purpose (2)	(775)	(1,780)
Income tax expenses	**2,858**	**1,796**
Effective tax rate	20.2%	12.6%

(1) Consists primarily of items not deductible for tax purposes such as staff costs and entertainment expenses.

(2) Consists primarily of our interest come from PRC government bonds, local government bonds, railway construction bonds, long-term special financial bonds and micro loans to farmers.

Our income tax expenses decreased by 37.2% from RMB2,858 million for the three months ended March 31, 2015 to RMB1,796 million for the three months ended March 31, 2016, reflecting the effect of the tax-free part of the interest income on long-term special financial bonds. Our effective income tax rate was 20.2% and 12.6%, respectively, for the three months ended March 31, 2015 and 2016.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

	For the three months ended March 31,	
	2015	2016
	(unaudited)	
	(in millions of RMB)	
Current income tax	3,463	1,605
Deferred income tax	(605)	191
Income tax expenses	**2,858**	**1,796**

Net profit

As a result of all the foregoing factors, our net profit increased by 10.9% from RMB11.3 billion for the three months ended March 31, 2015 to RMB12.5 billion for the three months ended March 31, 2016.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

The following table sets forth, for the periods indicated, our consolidated results of operations.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Interest income	242,145	281,780	300,561
Interest expense	(103,172)	(113,964)	(121,302)
Net interest income	**138,973**	**167,816**	**179,259**
Fee and commission income	11,682	13,112	16,272
Fee and commission expense	(5,717)	(6,633)	(7,600)
Net fee and commission income	**5,965**	**6,479**	**8,672**
Net trading gains/(losses)	(209)	128	275
Securities investment gains/(losses)	(252)	(1,325)	946
Other operating income(1)	757	777	1,481
Operating income	**145,234**	**173,875**	**190,633**
Operating expenses(2)	(101,466)	(114,126)	(123,610)
Impairment losses on assets	(8,674)	(20,412)	(25,635)
Profit before income tax	**35,094**	**39,337**	**41,388**
Income tax expense	(5,426)	(6,770)	(6,531)
Net profit	**29,668**	**32,567**	**34,857**

(1) Consists primarily of government subsidies income, leasing income, net exchange gain and precious metal sales income.

(2) Consists primarily of deposit agency fees, staff costs, other general operating and administrative expenses, business tax and surcharges, depreciation and amortization and others.

Our net profit for the years ended December 31, 2013, 2014 and 2015 was RMB29.7 billion, RMB32.6 billion and RMB34.9 billion, respectively, with a CAGR of 8.4% from 2013 to 2015, mainly due to the increase in operating profit before provision for impairment losses. Our operating profit before provision for impairment losses for the years ended December 31, 2013, 2014 and 2015 was RMB43.8 billion, RMB59.7 billion and RMB67.0 billion respectively, with a CAGR of 23.7% from 2013 to 2015, primarily due to increases in the net interest income and the net fee and commission income, which were partially offset by the increase in operating expenses.

Net interest income

Net interest income is the largest component of our operating income, representing 95.7%, 96.5% and 94.0% of our operating income for the years ended December 31, 2013, 2014 and 2015, respectively.

The following table sets forth, for the years indicated, our interest income, interest expense and net interest income.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Interest income	242,145	281,780	300,561
Interest expense	(103,172)	(113,964)	(121,302)
Net interest income	**138,973**	**167,816**	**179,259**

Our net interest income increased by 20.8% from RMB139.0 billion in 2013 to RMB167.8 billion in 2014, primarily due to an increase of 16.4% in interest income which outpaced the increase of 10.5% in interest expense. Our net interest income increased by 6.8% from RMB167.8 billion in 2014 to RMB179.3 billion in 2015, primarily due to an increase of 6.7% in interest income which outpaced the increase of 6.4% in interest expense.

The table below sets forth, for the years indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for interest-earning assets) or average costs (for interest-bearing liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest earning assets, non-interest bearing liabilities and the allowance for impairment losses are the average of the balances at January 1 and December 31 for the years ended December 31, 2013, 2014 and 2015, respectively.

	For the year ended December 31,								
	2013			2014			2015		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)								
Assets									
Loans to customers, total	1,396,196	99,649	7.14%	1,712,805	119,396	6.97%	2,235,188	139,417	6.24%
Fixed income investments(1)	1,211,967	47,770	3.94	1,337,381	59,363	4.44	1,796,935	81,742	4.55
Deposits with central bank(2)	1,139,221	22,524	1.98	1,276,231	24,507	1.92	1,284,596	23,963	1.87
Amounts due from banks and other financial institutions(3)	1,450,929	72,202	4.98	1,429,084	78,514	5.49	1,137,768	55,439	4.87
Total interest-earning assets	**5,198,313**	**242,145**	**4.66%**	**5,755,501**	**281,780**	**4.89%**	**6,454,487**	**300,561**	**4.65%**
Allowance for impairment losses	(27,214)			(39,092)			(56,282)		
Non-interest earning assets(4)	85,393			91,835			224,813		
Total assets	**5,256,492**			**5,808,244**			**6,623,018**		

	For the year ended December 31,								
	2013			2014			2015		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Liabilities									
Customer deposits. ...	5,102,453	100,587	1.97%	5,579,842	112,429	2.01%	6,066,394	117,184	1.93%
Amounts due to banks and other financial institutions(5)........	68,154	2,585	3.79	56,399	1,535	2.72	169,137	3,770	2.23
Debt securities issued(6)	—	—	—	—	—	—	7,740	348	4.50
Total interest-bearing liabilities	**5,170,607**	**103,172**	**2.00%**	**5,636,241**	**113,964**	**2.02%**	**6,243,271**	**121,302**	**1.94%**
Non-interest bearing liabilities(7)	100,274			120,061			129,999		
Total liabilities........	**5,270,881**			**5,756,302**			**6,373,270**		
Net interest income.		**138,973**			**167,816**			**179,259**	
Net interest spread(8)			**2.66%**			**2.87%**			**2.71%**
Net interest margin(9)			**2.67%**			**2.92%**			**2.78%**

(1) Consists of our holdings of fixed income investments classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

(2) Consists of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits.

(3) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.

(4) Consists primarily of cash, property and equipment, equity interests of non-listed companies, derivative financial assets, interest receivables, receivables and prepayments, deferred tax assets and other assets.

(5) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.

(6) Consists of tier-2 capital bonds issued.

(7) Consists primarily of derivative financial liabilities, employee benefits payable, payables for agency services, taxes payable, interest payable and other liabilities.

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

(9) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the 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 rate.

	For the year ended December 31,					
	2014 vs. 2013			2015 vs. 2014		
	Increase/(decrease) due to		Net increase/ (decrease)[3]	Increase/(decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]		Volume[1]	Rate[2]	
	(in millions of RMB)					
Assets						
Loans to customers, total	22,070	(2,323)	19,747	32,583	(12,562)	20,021
Fixed income investments[4]	5,567	6,026	11,593	20,905	1,474	22,379
Deposits with central bank[5]	2,631	(648)	1,983	156	(700)	(544)
Amounts due from banks and other financial institutions[6]	(1,180)	7,492	6,312	(14,481)	(8,594)	(23,075)
Changes in interest income	**29,088**	**10,547**	**39,635**	**39,163**	**(20,382)**	**18,781**
Liabilities						
Customer deposits	9,619	2,223	11,842	9,399	(4,644)	4,755
Amounts due to banks and other financial institutions[7]	(651)	(399)	(1,050)	2,595	(360)	2,235
Debt securities issued[8]	—	—	—	348	—	348
Changes in interest expense	**8,968**	**1,824**	**10,792**	**12,342**	**(5,004)**	**7,338**
Changes in net interest income	**20,120**	**8,723**	**28,843**	**26,821**	**(15,378)**	**11,443**

(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) Consists of our holdings of fixed income products classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

(5) Consists of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits.

(6) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.

(7) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.

(8) Consists of tier-2 capital bonds issued.

Interest Income

Our interest income increased by 16.4% from RMB242.1 billion in 2013 to RMB281.8 billion in 2014, primary due to an increase in the average balance of interest-earning assets and, to a lesser extent, due to an increase of the average yield on our interest-earning assets from 4.66% in 2013 to 4.89% in 2014. The average balance of interest-earning assets increased primarily due to increases in the average balance of loans to customers and the average balance of fixed income investments. The average yield on our interest-earning assets increased primarily due to (i) an increase in the average yield on amounts due from banks and other financial institutions (including deposits with banks and other financial institutions, financial assets held under resale agreements as well as placements with banks and other financial institutions), and (ii) an increase in the average yield on fixed income investments and a higher percentage of such assets in our total assets, which were partially offset by a decrease in the average yield on loans to customers.

Our interest income increased by 6.7% from RMB281.8 billion in 2014 to RMB300.6 billion in 2015, primarily due to an increase in the average balance of interest-earning assets, which was partially offset by a decrease in the average yield on interest-earning assets from 4.89% in 2014 to 4.65% in 2015. The average balance of interest-earning assets increased primarily due to increases in the average balance of loans to customers and the average balance of fixed income investments. The average yield on our interest-earning assets decreased primarily due to decreases in average yields of loans to customers and amounts due from banks and other financial institutions.

Interest Income from Loans to Customers

Interest income from loans to customers is the largest component of our interest income, representing 41.2%, 42.4% and 46.4% in 2013, 2014 and 2015, respectively.

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the year ended December 31,								
	2013			2014			2015		
	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	684,016	41,531	6.07%	764,362	46,880	6.13%	901,759	49,548	5.49%
Discounted bills	69,818	5,065	7.25	83,653	5,503	6.58	223,748	10,633	4.75
Personal loans	642,362	53,053	8.26	864,790	67,013	7.75	1,109,682	79,236	7.14
Total loans to customers	**1,396,196**	**99,649**	**7.14%**	**1,712,805**	**119,396**	**6.97%**	**2,235,189**	**139,417**	**6.24%**

Our interest income from loans to customers increased by 19.8% from RMB99.6 billion in 2013 to RMB119.4 billion in 2014, which further increased by 16.8% to RMB139.4 billion in 2015. The continued increase in interest income from loans to customers from 2013 to 2015 was primarily due to a year-on-year increase in the average balance of our total loans to customers, which was partially offset by a decrease in the average yield on loans to customers. The average balance of our total loans to customers increased by 22.7% from RMB1,396.2 billion in 2013 to RMB1,712.8 billion in 2014 and further increased by 30.5% to RMB2,235.2 billion in 2015, reflecting the overall growth in our loan portfolio. The average yield on our loans to customers decreased from 7.14% in 2013 to 6.97% in 2014, and further decreased to 6.24% in 2015, primarily due to consecutive cuts in benchmark interest rates for loans by the PBOC from November 2014 to October 2015 and the increased competition in PRC banking industry.

For the years ended December 31, 2013, 2014 and 2015, interest income from personal loans accounted for 53.2%, 56.1% and 56.8% of our total interest income from loans to customers, respectively, and interest income from corporate loans accounted for 41.7%, 39.3% and 35.5% of our total interest income from loans to customers, respectively.

Personal loans. Our interest income from personal loans increased by 26.3% from RMB53.1 billion in 2013 to RMB67.0 billion in 2014, primarily due to an increase in the average balance of our personal loans, which was partially offset by a decrease in the average yield on our personal loans. The average balance of our personal loans increased by 34.6% from RMB642.4 billion in 2013 to RMB864.8 billion in 2014, primarily attributable to our continued focus on implementing our retail banking development strategy and increased efforts to grow our personal loan business. The average yield on our personal loans decreased from 8.26% in 2013 to 7.75% in 2014, primarily due to a decrease in micro loans and personal business loans which have relatively high returns as a percentage of our personal loan portfolio, reflecting our moderate control over the growth in these loan products taking into account the risk profile of such products.

Our interest income from personal loans increased by 18.2% from RMB67.0 billion in 2014 to RMB79.2 billion in 2015, primarily due to an increase in the average balance of our personal loans, which was partially offset by a decrease in the average yield on our personal loans. The average balance of personal loans increased by 28.3% from RMB864.8 billion in 2014 to RMB1,109.7 billion in 2015, primarily attributable to our continued focus on implementing our retail banking development strategy and increased efforts to grow our personal loan business. The average yield on personal loans decreased from 7.75% in 2014 to 7.14% in 2015, primarily due to (i) consecutive cuts in benchmark interest rates for loans by the PBOC from November 2014 to October 2015, which resulted in lower interest rates charged on loans extended or repriced after such cuts and throughout 2015, and (ii) a decrease in micro loans and personal business loans with relatively high returns as a percentage of our personal loan portfolio.

Corporate Loans. Our interest income from corporate loans increased by 12.9% from RMB41.5 billion in 2013 to RMB46.9 billion in 2014, primarily due to an increase in the average balance of our corporate loans and, to a lesser extent, due to an increase in the average yield on our corporate loans. The average balance of our corporate loans increased by 11.8% from RMB684.0 billion in 2013 to

RMB764.4 billion in 2014, primarily due to the continuous growth of our corporate banking business. The increase in the average yield on our corporate loans from 6.07% in 2013 to 6.13% in 2014 was primarily due to an increase in our corporate loans to small enterprises, as a percentage of our corporate loan portfolio, which have relatively high returns.

Our interest income from corporate loans increased by 5.7% from RMB46.9 billion in 2014 to RMB49.5 billion in 2015, primarily due to an increase in the average balance of our corporate loans, which was partially offset by a decrease in the average yield. The average balance of corporate loans increased by 18.0% from RMB764.4 billion in 2014 to RMB901.8 billion in 2015, primarily due to the continuous growth of our corporate banking business. The average yield on corporate loans decreased from 6.13% in 2014 to 5.49% in 2015, primarily due to consecutive cuts in benchmark interest rates for loans by the PBOC from November 2014 to October 2015, which resulted in lower interest rates charged on loans extended or repriced after such cuts and throughout 2015.

Discounted Bills. Our interest income from discounted bills increased by 8.6% from RMB5.1 billion in 2013 to RMB5.5 billion in 2014, and further increased by 93.2% to RMB10.6 billion in 2015, primarily due to an increase in the average balance of discounted bills, which was partially offset by a decrease in the average yield. The average balance of discounted bills increased by 19.8% from RMB69.8 billion in 2013 to RMB83.7 billion in 2014, and further increased by 167.5% to RMB223.7 billion in 2015, primarily attributable to a rapid growth in our discounted bill business and the increased demand of our corporate customers for such products. The average yield decreased from 7.25% in 2013 to 6.58% in 2014, and further decreased to 4.75% in 2015, primarily reflecting the decreased market interest rates for discounted bills.

Interest Income from Fixed Income Investments

Our interest income from fixed income investments consists of interest income from our holdings of fixed income products which are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables in our investment portfolio. Interest income from fixed income investments represented 19.7%, 21.1% and 27.2% of our interest income for the year ended December 31, 2013, 2014 and 2015, respectively.

Our interest income from fixed income investments increased by 24.3% from RMB47.8 billion in 2013 to RMB59.4 billion in 2014, primarily due to an increase in the average yield on our fixed income investments and, to a lesser extent, due to an increase in the average balance. The average yield on our fixed income investments increased from 3.94% in 2013 to 4.44% in 2014, accompanied by an increase of 10.3% in the average balance from RMB1,212.0 billion in 2013 to RMB1,337.4 billion in 2014, primarily due to our continued efforts to develop our interbank investment business and increased our investments in financial assets with relatively high returns, including commercial bank wealth management products, trust investment plans and asset management plans.

Our interest income from fixed income investments increased by 37.7% from RMB59.4 billion in 2014 to RMB81.7 billion in 2015, primarily due to an increase in the average balance of our fixed income investments and, to a lesser extent, due to an increase in the average yield. The average balance of our fixed income investments increased by 34.4% from RMB1,337.4 billion in 2014 to

RMB1,796.9 billion in 2015, primarily due to (i) our continuous increased investments in financial assets with high returns, including commercial bank wealth management products, trust investment plans and asset management plans, and (ii) our purchase of long-term special financial bonds issued by China Development Bank and Agricultural Development Bank in an aggregate principal amount of RMB778.0 billion in the second half of 2015. The average yield on fixed income investments increased from 4.44% in 2014 to 4.55% in 2015, primarily due to our increased investments in commercial bank wealth management products, trust investment plans and asset management plans.

Interest Income from Deposits with Central Bank

Our interest-earning deposits with central bank consist of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits with the PBOC. Our interest income from deposits with central bank for the year ended December 31, 2013, 2014 and 2015 accounted for 9.3%, 8.7% and 8.0% of our interest income, respectively.

Our interest income from deposits with central bank increased by 8.8% from RMB22.5 billion in 2013 to RMB24.5 billion in 2014, primarily due to an increase in the average balance of our deposits with central bank, which was partially offset by a decrease in the average yield. The average balance of our deposits with central bank increased by 12.0% from RMB1,139.2 billion in 2013 to RMB1,276.2 billion in 2014, primarily due to the growth in our customer deposits. The average yield on our deposits with central bank decreased from 1.98% in 2013 to 1.92% in 2014, primarily due to an increase in statutory deposit reserves, as a percentage of our deposits with central bank, the interest rate on which was lower than that of special deposits.

Our interest income from deposits with central bank decreased by 2.2% from RMB24.5 billion in 2014 to RMB24.0 billion in 2015, primarily due to a decrease in the average yield from 1.92% in 2014 to 1.87% in 2015 primarily because all of our special deposits with the PBOC, which had relatively high interest rates, became due in 2015. The average balance of deposits with central bank slightly increased by 0.7% from RMB1,276.2 billion in 2014 to RMB1,284.6 billion in 2015.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Amounts due from banks and other financial institutions consist of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions. Interest income from amounts due from banks and other financial institutions accounted for 29.8%, 27.9% and 18.4% of our interest income in 2013, 2014 and 2015, respectively.

Our interest income from amounts due from banks and other financial institutions increased by 8.7% from RMB72.2 billion in 2013 to RMB78.5 billion in 2014, primarily due to an increase in the average yield on amounts due from banks and other financial institutions, which was partially offset by a decrease in the average balance. The average yield on amounts due from banks and other financial institutions increased from 4.98% in 2013 to 5.49% in 2014 primarily because the returns on such financial assets were relatively high attributable to an increase in the interest rates on interbank market as a result of the tightened market liquidity from the second half of 2013 and we gained favorable returns for holding such assets in 2014. The average balance of amounts due from banks and other financial institutions slightly decreased by 1.5% from RMB1,450.9 billion in 2013 to RMB1,429.1 billion in 2014.

Our interest income from amounts due from banks and other financial institutions decreased by 29.4% from RMB78.5 billion in 2014 to RMB55.4 billion in 2015, primarily due to a decrease in the average balance of amounts due from banks and other financial institutions and, to a lesser extent, due to a decrease in the average yield. The average balance of amounts due from banks and other financial institutions decreased by 20.4% from RMB1,429.1 billion in 2014 to RMB1,137.8 billion in 2015, primarily because (i) deposits with banks and other financial institutions with a term longer than one year which offered higher returns gradually became due in 2015, and (ii) we strengthened risk control over bill business and decreased our holding of bills held under resale agreements in 2015. The average yield on amounts due from banks and other financial institutions decreased from 5.49% in 2014 to 4.87% in 2015, reflecting (i) the maturity of the deposits with banks and other financial institutions with high returns in 2015, and (ii) the decreased interbank market interest rates attributable to the consecutive cuts in benchmark interest rates by the PBOC in 2015 and the increased market liquidity compared to 2014.

Interest Expense

Our interest expense increased by 10.5% from RMB103.2 billion in 2013 to RMB114.0 billion in 2014, primarily due to a 9.0% increase in the average balance of our interest-bearing liabilities from RMB5,170.6 billion in 2013 to RMB5,636.2 billion in 2014 and an increase in the average cost for interest-bearing liabilities from 2.00% in 2013 to 2.02% in 2014. Our interest expense increased by 6.4% from RMB114.0 billion in 2014 to RMB121.3 billion in 2015, primarily due to a 10.8% increase in the average balance of our interest-bearing liabilities from RMB5,636.2 billion in 2014 to RMB6,243.3 billion in 2015, which was partially offset by a decrease in the average cost for interest-bearing liabilities from 2.02% in 2014 to 1.94% in 2015.

Interest Expense on Customer Deposits

During the Track Record Period, interest expense on customer deposits was the largest component of our interest expense. Interest expense on customer deposits represented 97.5%, 98.7% and 96.6% of our total interest expense for the year ended December 31, 2013, 2014 and 2015, respectively.

The following table sets forth, for the years indicated, the daily average balance, interest expense and average cost of our corporate and personal deposits by product type.

	For the year ended December 31,								
	2013			2014			2015		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	155,894	4,927	3.16%	200,617	6,474	3.23%	255,003	7,714	3.03%
Demand	484,268	4,203	0.87	515,798	4,690	0.91	564,159	4,184	0.74
Subtotal	640,162	9,130	1.43	716,415	11,164	1.56	819,162	11,898	1.45
Personal deposits									
Time	2,776,867	85,193	3.07	3,052,410	94,379	3.09	3,353,551	98,837	2.95
Demand(1)	1,685,424	6,264	0.37	1,811,017	6,886	0.38	1,893,681	6,449	0.34
Subtotal	4,462,291	91,457	2.05	4,863,427	101,265	2.08	5,247,232	105,286	2.01
Total customer deposits	**5,102,453**	**100,587**	**1.97%**	**5,579,842**	**112,429**	**2.01%**	**6,066,394**	**117,184**	**1.93%**

(1) Including credit card deposits.

Our interest expense on customer deposits increased by 11.8% from RMB100.6 billion in 2013 to RMB112.4 billion in 2014, primarily due to an increase in the average balance of customer deposits and, to a lesser extent, due to an increase in the average cost. The average balance of our customer deposits increased by 9.4% from RMB5,102.5 billion in 2013 to RMB5,579.8 billion in 2014, reflecting a stable growth in our personal and corporate deposits as our overall businesses continued to grow. The average cost of our customer deposits increased from 1.97% in 2013 to 2.01% in 2014, primarily because (i) we raised interest rates on RMB-denominated deposits in response to the increased competition in the market, and (ii) an increased proportion of time deposits with higher interest rates in our total customer deposits.

Our interest expense on customer deposits increased by 4.2% from RMB112.4 billion in 2014 to RMB117.2 billion in 2015, primarily due to an increase in the average balance of customer deposits, which was partially offset by a decrease in the average cost. The average balance of customer deposits increased by 8.7% from RMB5,579.8 billion in 2014 to RMB6,066.4 billion in 2015, primarily due to our increased marketing and promotion towards retail customers reflecting our focus on developing personal banking business. The average cost of customer deposits decreased from 2.01% in 2014 to 1.93% in 2015, primarily because the PBOC consecutively cut the benchmark interest rates from November 2014 to October 2015.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Amounts due to banks and other financial institutions consist primarily of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions. Interest expense on amounts due to banks and other financial institutions represented 2.5%, 1.3% and 3.1% of our interest expense in 2013, 2014 and 2015, respectively.

Our interest expense on amounts due to banks and other financial institutions decreased by 40.6% from RMB2,585 million in 2013 to RMB1,535 million in 2014, primarily due to a decrease in the average cost and, to a lesser extent, due to a decrease in the average balance. The average cost on amounts due to banks and other financial institutions decreased from 3.79% in 2013 to 2.72% in 2014, primarily due to a relatively low interest rates of the financial assets sold under repurchase agreements that we held in 2014. The average balance on amounts due to banks and other financial institutions decreased by 17.2% from RMB68.2 billion in 2013 to RMB56.4 billion in 2014, primarily because we decreased the scale of financial assets sold under repurchase agreements based on our asset and liability management strategy.

Our interest expense on amounts due to banks and other financial institutions increased by 145.6% from RMB1,535 million in 2014 to RMB3,770 million in 2015, primarily due to an increase in the average balance, which was partially offset by a decrease in the average cost. The average balance of amounts due to banks and other financial institutions significantly increased from RMB56.4 billion in 2014 to RMB169.1 billion in 2015, primarily due to our increased interbank borrowing to maintain a growth in our liabilities commensurate with our assets. The average cost decreased from 2.72% in 2014 to 2.23% in 2015, primarily reflecting decreases in interest rates on the interbank market as a result of consecutive cuts in benchmark interest rates by the PBOC in 2015 and increased market liquidity compared to 2014.

Interest Expense on Debt Securities Issued

In 2013 and 2014, we had no debt securities issued. Interest expense on debt securities issued amounted to RMB348 million in 2015, primarily due to our issuance of tier-2 capital bonds in an aggregate principal amount of RMB25.0 billion on September 9, 2015. See “Assets and Liabilities — Liabilities and Sources of Funds — Other Components of Our Liabilities.”

Net Interest Spread and Net Interest Margin

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

Our net interest spread increased from 2.66% in 2013 to 2.87% in 2014 because the average yield on our interest-earning assets increased by 23 basis points while the average cost on our interest-bearing liabilities increased by two basis points. Our net interest margin increased from 2.67% in 2013 to 2.92% in 2014, primarily because the growth in our net interest income outpaced the growth in the average balance of interest-earning assets from 2013 to 2014. This was because (i) the returns on amount due from banks and other financial institutions were relatively high attributable to the tightened market liquidity from the second half of 2013 and we gained favorable returns for holding such assets in 2014, and (ii) we increased investments in financial assets with relatively high returns, including commercial bank wealth management products, trust investment plans and asset management plans.

Our net interest spread decreased from 2.87% in 2014 to 2.71% in 2015 because the average yield on our interest-earning assets decreased by 24 basis points as a result of the PBOC cutting benchmark interest rates and removing the upper limit of the interest rates for RMB-denominated deposits, which was higher than the eight basis points decrease in the average cost on our interest-bearing liabilities. Our net interest margin decreased from 2.92% in 2014 to 2.78% in 2015 primarily because the growth in the average balance of interest-earning assets from 2014 to 2015 outpaced the growth in net interest income, reflecting the decreases in the average yields on all types of interest-earning assets, except for fixed income investments, as a result of consecutive cuts in PBOC benchmark interest rates, the interest rate liberalization and adequate liquidity in the market in 2015. The average yield on fixed income investments increased from 2014 to 2015 primarily because we adjusted the structure of our investment portfolio by increasing investments in commercial bank wealth management products, trust investment plans and asset management plans which have relatively high returns.

Net Fee and Commission Income

For the year ended December 31, 2013, 2014 and 2015, net fee and commission income accounted for 4.1%, 3.7% and 4.5% of our operating income, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Fee and commission income			
Settlement and clearing fee income	6,011	5,862	5,525
Agency service fee income	1,471	1,511	2,260
Wealth management fee income	921	1,141	2,161
Bank card and POS fee income	2,496	3,474	4,634
Custodian business income	239	331	506
Others[(1)]	544	793	1,186
Subtotal	11,682	13,112	16,272
Fee and commission expenses	(5,717)	(6,633)	(7,600)
Net fee and commission income	**5,965**	**6,479**	**8,672**

(1) Consists of fee and commission income from text messaging service and other business.

Our net fee and commission income increased by 8.6% from RMB5,965 million in 2013 to RMB6,479 million in 2014, and further increased by 33.8% to RMB8,672 million in 2015, primarily due to our efforts to develop our fee- and commission-based businesses.

Fee and Commission Income

Our fee and commission income increased by 12.2% from RMB11.7 billion in 2013 to RMB13.1 billion in 2014, and further increased by 24.1% to RMB16.3 billion in 2015.

Settlement and Clearing Fee Income

Settlement and clearing fee income consists of fees earned on settlement and clearing services for institutions and individuals, primarily including fees on cross-region cash deposits and withdrawals, remittance fees, account service fees, and cross-bank transaction fees. Our settlement and clearing fee income decreased by 2.5% from RMB6,011 million in 2013 to RMB5,862 million in 2014, and further decreased by 5.7% to RMB5,525 million in 2015, primarily due to adjusted fee standards and increased uses of electronic banking by retail customers.

Agency Service Fee Income

Agency service fee income consists primarily of fees earned on agency services provided for bancassurance, funds, government bonds and collection and payment agency services. Our agency service fees remained stable and were RMB1,471 million in 2013 and RMB1,511 million in 2014. Our agency service fee income increased by 49.6% from RMB1,511 million in 2014 to RMB2,260 million in 2015, primarily due to an increase in fund products and insurance products that we distributed, reflecting customers' preferences in fund and insurance products.

Wealth Management Service Fee Income

Wealth management service fee income consists primarily of fees and commission received for wealth management services provided to our corporate and retail customers. Wealth management service fee income increased by 23.9% from RMB921 million in 2013 to RMB1,141 million in 2014, and further increased by 89.4% to RMB2,161 million in 2015, primarily due to increases in types and the number of wealth management products issued by us as a result of our efforts to develop our wealth management business.

Bank Card and POS Fee Income

Bank card and POS fee income consists primarily of annual fees on debit card and credit cards, fees for processing interbank transactions for the cards issued by other banks and transaction fees charged from merchants using our cards. Our bank card and POS fee income increased by 39.2% from RMB2,496 million in 2013 to RMB3,474 million in 2014, and further increased by 33.4% to RMB4,634 million in 2015, primarily due to an increase in the number of bank cards we issued and increased transaction volume of bank cards as a result of our continued efforts to develop our bank card business.

Custodian Business Income

Custodian business income consists primarily of fees from our custody services provided for wealth management products, trust products, funds and insurance products under our custody. Custodian business income increased by 38.5% from RMB239 million in 2013 to RMB331 million in 2014, and further increased by 52.9% to RMB506 million in 2015, primarily due to increases in the number of our customers and assets under our management as a result of our efforts to proactively develop our custodian business.

Other Service Fee Income

Other service fee income consists primarily of service fees charged for text messaging and other services. Other service fee income increased by 45.8% from RMB544 million in 2013 to RMB793 million in 2014, and further increased by 49.6% to RMB1,186 million in 2015, reflecting our increased efforts to develop fee- and commission-based businesses.

Fee and Commission Expenses

Fee and commission expenses consist primarily of expenses that we incurred for agency and settlement services, including fees we paid to China Post Group for its agency services. Our fee and commission expenses increased by 16.0% from RMB5,717 million in 2013 to RMB6,633 million in 2014, and further increased by 14.6% to RMB7,600 million in 2015, primarily due to an increases in the volume of funds, government bonds and wealth management products that China Post Group distributed for us. For more details about agency fees we paid China Post Group, see "Connected Transactions."

Net Trading Gains/(Losses)

Net gains/(losses) consist primarily of net realized and unrealized gains or losses on debt securities and derivative financial instruments we hold for trading. We recorded net trading loss of RMB209 million in 2013, primarily reflecting a decrease in market prices of debt securities as a result of rising interest rates in 2013. Our net trading gains increased by 114.8% from RMB128 million in 2014 to RMB275 million in 2015, primarily because gains from debt securities trading increased, reflecting the increased market prices of debt securities as a result of decreased interest rates in 2014 and 2015.

Net Gains/(Losses) on Investment Securities

Net gains/(losses) on investment securities consist primarily of net realized gains or losses on disposal of our available-for-sale financial assets. Net loss on investment securities significantly increased from RMB252 million in 2013 to RMB1,325 million in 2014, primarily due to our disposal of certain securities to refine our investment portfolio. We generated net gains on investment securities of RMB946 million in 2015, primarily due to (i) gains on our investments in money market funds, and (ii) an increase in gains on our disposal of debt securities attributable to an increase in market prices of debt securities as a result of decreasing interest rates in 2015.

Other Operating Income

Other operating income consists primarily of government subsidies, leasing income, net exchange gains and precious metal sales income. In 2013 and 2014, our other operating income was RMB757 million and RMB777 million, respectively, which remained stable. Our other operating income increased by 90.6% from RMB777 million in 2014 to RMB1,481 million in 2015, primarily due to (i) incentives and interest subsidies granted by some local governments for loans extended to agriculture-related customers and micro loans to support re-employment that we extended in these regions, and (ii) the growth in our precious metal sales business.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our operating expenses.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB, except percentages)		
Staff costs	23,248	28,724	34,172
Deposit agency fees	46,058	50,366	54,397
Other general operating and administrative expenses	18,432	19,156	19,392
Business taxes and surcharges	6,240	8,155	7,886
Depreciation and amortization	4,980	4,990	4,817
Others	2,508	2,735	2,946
Total operating expenses	**101,466**	**114,126**	**123,610**
Cost-to-income ratio[1]	**65.6%**	**60.9%**	**60.7%**

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.

Our operating expenses increased by 12.5% from RMB101.5 billion in 2013 to RMB114.1 billion in 2014, and further increased by 8.3% to RMB123.6 billion in 2015. In 2013, 2014 and 2015, our cost-to-income ratio was 65.6%, 60.9% and 60.7%, respectively. Our cost-to-income ratio decreased from 2013 to 2015 primarily because the growth in our operating income outpaced the growth in operating expenses, reflecting we continued to strengthen cost control.

Staff Costs

The following table sets forth, for the years indicated, the components of our staff costs.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Wages and salaries, bonuses, allowances and subsidies	17,850	22,033	25,726
Social security contributions[1] and housing funds	3,433	4,433	5,807
Staff welfare	1,013	1,165	1,257
Labor union funds and employee education funds	424	651	796
Annuity scheme	357	427	575
Supplementary retirement benefits	171	15	11
Total staff costs	**23,248**	**28,724**	**34,172**

(1) Consists of medical insurance, work injury insurance, maternity insurance, basic pensions and unemployment insurance.

Staff costs increased by 23.6% from RMB23.2 billion in 2013 to RMB28.7 billion in 2014, and further increased by 19.0% to RMB34.2 billion in 2015, primarily due to an increase in wages and salaries, bonuses, allowances and subsidies for our employees and increases in most types of staff costs.

Wages and salaries, bonuses, allowances and subsidies are the largest component of our staff costs, accounting for 76.8%, 76.7% and 75.3% of our total staff costs, respectively, in 2013, 2014 and 2015. Wages and salaries, bonuses, allowances and subsidies increased by 23.4% from RMB17.9 billion in 2013 to RMB22.0 billion in 2014, and further increased by 16.8% to RMB25.7 billion in 2015, primarily due to an increase in the number of our employees and the moderately increased compensation levels for our employees.

Social security contributions and housing funds accounted for 14.8%, 15.4% and 17.0% of our total staff costs, respectively, in 2013, 2014 and 2015. Social security contributions consist of the compulsory social insurance contributions paid under the relevant laws and regulations and the supplementary medical insurance plan contributions we provide to employees. Social security contributions and housing funds increased by 29.1% from RMB3,433 million in 2013 to RMB4,433 million in 2014, and further increased by 31.0% to RMB5,807 million in 2015, primarily due to (i) an increase in the number of our employees, and (ii) the annual adjustment to benchmark rates of mandatory contributions for social security and housing funds and the moderately increased compensation levels for our employees.

Staff welfare consists primarily of employee health care expenses, expenses for staff activity facilities, staff allowance, retired staff activities expenses and comforts funds. Staff welfare increased by 15.0% from RMB1,013 million in 2013 to RMB1,165 million in 2014, and further increased by 7.9% to RMB1,257 million in 2015, in line with increases in our salaries and bonuses for our employees.

Deposit Agency Fees

Deposit agency fees are fees we pay to China Post Group for its agency services for taking deposits denominated in Renminbi and foreign currencies on our behalf at agency outlets. For details about the agency fee arrangements between China Post Group and us, see "Connected Transactions — Non-exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements — — Agency Banking Businesses — (Q) Agency Banking Businesses of Agency Outlets." Deposit agency fees are the largest component of our operating expenses. In 2013, 2014 and 2015, deposit agency fees accounted for 45.4%, 44.1% and 44.0% of our operating expenses, respectively. Deposit agency fees increased by 9.4% from RMB46.1 billion in 2013 to RMB50.4 billion in 2014, and further increased by 8.0% to RMB54.4 billion in 2015, reflecting the constant growth in customer deposits we took through agency outlets.

Other General Operating and Administrative Expenses

Other general operating and administrative expenses consist primarily of rental fees, advertising expenses, equipment operation and maintenance expenses and general office expenses. Our other general operating and administrative expenses increased by 3.9% from RMB18.4 billion in 2013 to RMB19.2 billion in 2014, and further increased by 1.2% to RMB19.4 billion in 2015, in line with our overall business growth.

Business Tax and Surcharges

During the Track Record Period, business tax was levied at 5% primarily on our gross interest income on certain loans to customers and our gross fee and commission income. In addition, city construction and maintenance tax and education surcharges were levied with certain local governments. Business tax and surcharges increased by 30.7% from RMB6,240 million in 2013 to RMB8,155 million in 2014. Business tax and surcharges decreased by 3.3% from RMB8,155 million in 2014 to RMB7,886 million 2015, primarily reflecting that we enjoyed preferential tax treatments for micro loans extended to farmers in the full year of 2015, whereas in 2014 such preferential tax treatments were only extended close to the end of 2014.

Depreciation and Amortization

Our depreciation and amortization expenses remained stable from 2013 to 2015 and were RMB4,980 million, RMB4,990 million and RMB4,817 million, respectively.

Impairment Losses on Assets

The following table sets forth, for the years indicated, the principal components of our impairment losses on assets.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Loans to customers	8,066	17,921	23,186
Placements with banks and other financial institutions	578	160	549
Investment classified as receivables	—	2,272	1,668
Other assets	30	59	232
Total	**8,674**	**20,412**	**25,635**

Provisions for impairment losses on assets increased by 135.3% from RMB8,674 million in 2013 to RMB20.4 billion in 2014, primarily due to (i) the growth in loans to customers, and (ii) an increase in our provisions for impairment losses on investment classified as receivables based on risk levels of such assets pursuant to our prudent risk management policies. Impairment losses on assets increased by 25.6% from RMB20.4 billion in 2014 to RMB25.6 billion in 2015, primarily due to an increase in our provision for impairment losses on our loans to customers.

Provisions for impairment losses on loans to customers increased by 122.2% from RMB8,066 million in 2013 to RMB17.9 billion in 2014, and further increased by 29.4% to RMB23.2 billion in 2015, primarily due to increases in our total loans to customers and NPLs. For more details about changes in our allowance for impairment losses on loans to customers, see "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers."

Provisions for impairment losses on investment classified as receivables were RMB2,272 million in 2014, which were primarily for trust investment plans and asset management plans that we collectively assessed for impairment losses. Impairment losses on investment classified as receivables decreased by 26.6% from RMB2,272 million in 2014 to RMB1,668 million in 2015.

Income Tax Expenses

The following table sets forth, for the years indicated, the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before income tax and our actual income tax expenses.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB, except percentages)		
Profit before income tax	**35,094**	**39,337**	**41,388**
Income tax calculated at the statutory tax rate of 25%	8,773	9,834	10,347
Tax effect of items not deductible for tax purpose [(1)]	321	197	184
Tax effect of income not taxable for tax purpose[(2)]	(3,668)	(3,261)	(4,000)
Income tax expenses	**5,426**	**6,770**	**6,531**
Effective tax rate	**15.5%**	**17.2%**	**15.8%**

(1) Consists primarily of items not deductible for tax purposes such as staff costs and entertainment expenses.

(2) Consists primarily of our interest come from PRC government bonds, local government bonds, railway construction bonds, long-term special financial bonds and micro loans to farmers.

Our income tax expenses increased by 24.8% from RMB5,426 million in 2013 to RMB6,770 million in 2014, reflecting the growth in our profit before income tax. Our income tax expenses decreased by 3.5% from RMB6,770 million in 2014 to RMB6,531 million in 2015, primarily reflecting the effect of the tax-free interest income on PRC government bonds, local government bonds, railway constructions bonds, long-term special financial bonds and micro loans to farmers. Our effective income tax rate was 15.5%, 17.2% and 15.8%, respectively in 2013, 2014 and 2015, lower than the statutory tax rate, primarily attributable to the effect of the tax-free part of the interest income on PRC government bonds, local government bonds, railway construction bonds, long-term special financial bonds and micro loans to farmers.

The following table sets forth, for the years indicated, the components of our income tax expenses.

	For the year ended December 31,		
	2013	2014	2015
	(in millions of RMB)		
Current income tax	6,380	10,884	9,611
Deferred income tax	(954)	(4,114)	(3,080)
Income tax expenses	**5,426**	**6,770**	**6,531**

Net profit

As a result of all the foregoing factors, our net profit increased by 9.8% from RMB29.7 billion in 2013 to RMB32.6 billion in 2014, and further increased by 7.0% to RMB34.9 billion in 2015.

In 2013, 2014 and 2015, our return on average total assets was 0.57%, 0.55% and 0.51%, respectively. Our return on average total assets decreased from 2013 to 2015, primarily because the growth in average total assets outpaced the growth in our net profit.

In 2013, 2014 and 2015, our return on average net assets was 23.19%, 19.80% and 15.20%, respectively. Our return on average net assets decreased from 2013 to 2015 attributable to an increase in shareholders' equity as a result of the capital injection by China Post Group in late 2014 and the investments by Strategic Investors in December 2015.

SUMMARY OF SEGMENT OPERATING RESULTS

Summary Business Segment Information

Our principal businesses include personal banking, corporate banking and treasury operations. For a description of products and services of these businesses, see “Business — Our Principal Businesses.”

The following table sets forth, for the periods indicated, our operating results for each of our principal business segments.

	For the year ended December 31,														
	2013					2014					2015				
	Personal banking	Corporate banking	Treasury	Others	Total	Personal banking	Corporate banking	Treasury	Others	Total	Personal banking	Corporate banking	Treasury	Others	Total
	(in millions of RMB)														
Net external interest income/(expense)[1]	(36,001)	39,732	135,242	—	138,973	(30,811)	44,373	154,254	—	167,816	(22,844)	51,026	151,077	—	179,259
Intersegment net interest income/(expense)[2]	133,266	(11,435)	(121,831)	—	—	139,653	(13,112)	(126,541)	—	—	142,371	(17,783)	(124,588)	—	—
Net interest income	**97,265**	**28,297**	**13,411**	**—**	**138,973**	**108,842**	**31,261**	**27,713**	**—**	**167,816**	**119,527**	**33,243**	**26,489**	**—**	**179,259**
Net fee and commission income/(expense)	**5,998**	**(115)**	**82**	**—**	**5,965**	**5,969**	**247**	**263**	**—**	**6,479**	**7,636**	**405**	**631**	**—**	**8,672**
Net trading gains/(losses)	—	—	(209)	—	(209)	—	—	128	—	128	—	—	275	—	275
Net gains/(losses) on investment securities	—	—	(252)	—	(252)	—	—	(1,325)	—	(1,325)	—	—	946	—	946
Other operating income	479	—	—	278	757	424	—	—	353	777	1,041	—	—	440	1,481
Total operating income	**103,742**	**28,182**	**13,032**	**278**	**145,234**	**115,235**	**31,508**	**26,779**	**353**	**173,875**	**128,204**	**33,648**	**28,341**	**440**	**190,633**
Operating expenses	**(79,808)**	**(12,835)**	**(8,642)**	**(181)**	**(101,466)**	**(88,643)**	**(12,516)**	**(12,778)**	**(189)**	**(114,126)**	**(96,590)**	**(13,790)**	**(12,941)**	**(289)**	**(123,610)**
Impairment losses on assets	(6,398)	(1,698)	(578)	—	(8,674)	(10,052)	(7,860)	(2,500)	—	(20,412)	(12,567)	(10,851)	(2,217)	—	(25,635)
Profit before income tax	**17,536**	**13,649**	**3,812**	**97**	**35,094**	**16,540**	**11,132**	**11,501**	**164**	**39,337**	**19,047**	**9,007**	**13,183**	**151**	**41,388**

	For the three months ended March 31,									
	2015 (unaudited)					2016				
	Personal banking	Corporate banking	Treasury	Others	Total	Personal banking	Corporate banking	Treasury	Others	Total
	(in millions of RMB)									
Net external interest income/(expense)[1]	(7,309)	13,359	38,922	—	44,972	(3,434)	12,982	32,152	—	41,700
Intersegment net interest income/(expense)[2]	36,265	(3,861)	(32,404)	—	—	34,662	(4,245)	(30,417)	—	—
Net interest income	**28,956**	**9,498**	**6,518**	**—**	**44,972**	**31,228**	**8,737**	**1,735**	**—**	**41,700**
Net fee and commission income/(expense)	**1,965**	**(39)**	**258**	**—**	**2,184**	**2,559**	**246**	**158**	**—**	**2,963**
Net trading gains/(losses)	—	—	(139)	—	(139)	—	—	563	—	563
Net gains/(losses) on investment securities	—	—	117	—	117	—	—	2,012	—	2,012
Other operating income	237	—	—	59	296	195	—	—	81	276
Total operating income	**31,158**	**9,459**	**6,754**	**59**	**47,430**	**33,982**	**8,983**	**4,468**	**81**	**47,514**
Operating expenses	**(22,498)**	**(3,140)**	**(2,846)**	**(26)**	**(28,510)**	**(25,164)**	**(2,852)**	**(3,051)**	**(36)**	**(31,103)**
Impairment losses on assets	(2,629)	(1,857)	(320)	—	(4,806)	(2,562)	(1,780)	2,214	—	(2,128)
Profit before income tax	**6,031**	**4,462**	**3,588**	**33**	**14,114**	**6,256**	**4,351**	**3,631**	**45**	**14,283**

(1) Represents net interest income/(expense) from each segment’s external customers or activities.

(2) Represents net interest income/(expense) attributable to each segment’s transactions with other segments.

Personal banking business has been our primary source of operating income. Operating income from our personal banking business accounted for 71.4%, 66.3%, 67.3% and 71.5% of our total operating income in 2013, 2014 and 2015 and for the three months ended March 31, 2016, respectively. Operating income from our personal banking business increased by 11.1% from RMB103.7 billion in 2013 to RMB115.2 billion in 2014, which further increased by 11.3% to RMB128.2 billion in 2015, primarily due to our adherence to positioning us as a large retail bank and our continuous efforts to grow our personal banking business. Although operating income from this segment increased in 2014 as compared to 2013, profit before income tax of our personal banking business decreased by 5.7% from RMB17.5 billion in 2013 to RMB16.5 billion in 2014 to, primarily due to increases in operating expenses and provision for impairment losses on loans. Profit before income tax of our personal banking business increased by 15.2% from RMB16.5 billion in 2014 to RMB19.0 billion in 2015. Operating income from our personal banking business increased by 9.1% to RMB34.0 billion for the three months ended March 31, 2016 as compared to RMB31.2 billion for the same period in 2015, reflecting a stable growth in our personal banking business. Profit before income tax of our personal banking business for the three months ended March 31, 2016 increased by 3.7% to RMB6,256 million as compared to RMB6,031 million for the same period in 2015.

Operating income from our corporate banking business represented 19.4%, 18.1%, 17.6% and 18.9% of our total operating income in 2013, 2014 and 2015 and for the three months ended March 31, 2016, respectively. Operating income from our corporate banking business increased by 11.8% from RMB28.2 billion in 2013 to RMB31.5 billion in 2014, which further increased by 6.8% to RMB33.6 billion in 2015. The continued increase in operating income from our corporate banking business was primarily attributable to our increased efforts to develop our corporate banking business. Profit before income tax from corporate banking business decreased from 2013 to 2015, primarily because we increased provisions for impairment losses on loans in response to the growth in our corporate loan portfolio based on prudent credit policies. Operating income from our corporate banking business decreased by 5.0% to RMB8,983 million for the three months ended March 31, 2016 as compared to RMB9,459 million for the same period in 2015, primarily due to a decrease in interest income attributable to the consecutive cuts in benchmark interest rates for loans by the PBOC. Profit before income tax of our corporate banking business decreased by 2.5% to RMB4,351 million for the three months ended March 31, 2016 as compared to RMB4,462 million for the same period in 2015.

Operating income from our treasury business represented 9.0%, 15.4%, 14.9% and 9.4% of our total operating income in 2013, 2014 and 2015 and for the three months ended March 31, 2016, respectively. Operating income from our treasury business increased by 105.5% from RMB13.0 billion in 2013 to RMB26.8 billion in 2014, and profit before income tax of our treasury business increased significantly from RMB3,812 million in 2013 to RMB11.5 billion in 2014, primarily due to (i) our continued efforts to develop our treasury business, and (ii) the returns generated in 2014 from the financial assets that we held from the second half of 2013 under the tightened liquidity market condition. Operating income from our treasury business increased by 5.8% from RMB26.8 billion in 2014 to RMB28.3 billion in 2015, primarily due to (i) a net gain from securities investments of RMB946 million in 2015, and (ii) an increase in net fee and commission income attributable to our continued efforts to develop fee- and commission-based businesses. These were partially offset by a decrease in net interest income, primarily due to the increased market liquidity and decreased interbank market interest rates as a result of consecutive cuts in benchmark rates by the PBOC in 2015. Profit before income tax for our treasury business increased by 14.6% from RMB11.5 billion in 2014 to RMB13.2 billion in 2015. Operating income from our treasury business decreased by 33.8% to RMB4,468 million for the three months ended March 31, 2016 as compared to RMB6,754 million for the same period in 2015, primarily due to a decrease in net interest income which was partially offset by an increase in net gains on investment securities. Net interest income of our treasury business decreased primarily due to the consecutive interest rate cuts by the PBOC and the adequate market liquidity. Net gains on investment securities increased primarily due to (i) an increase in gains on our disposal of debt securities attributable to an increase in market prices of debt securities increased as a result of decreasing interest rates in 2015, and (ii) gains on our redemption of a portion of investments in money market funds. Although operating income from this segment decreased, profit before income tax of our treasury business increased by 1.2% to RMB3,631 million for the three months ended March 31, 2016 as compared to RMB3,588 million for the same period in 2015, primarily due to a reversal of allowance for impairment losses on assets of RMB2,214 million. For more details, see "— Results of Operations for the Three Months Ended March 31, 2015 and 2016 — Impairment Losses on Assets."

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the head office, branch, sub-branch or subsidiary that generated the revenue. For purposes of presentation, we categorize this information into regions. The following table sets forth, for the periods indicated, the total operating income attributable to each of these geographical regions. For a description of our geographical regions, see "Definitions and Conventions."

	For the year ended December 31,						For the three months ended March 31,			
	2013		2014		2015		2015 (unaudited)		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB, except percentages)									
Head Office	17,507	12.0%	24,418	14.1%	23,661	12.4%	8,128	17.2%	5,159	10.8%
Yangtze River Delta	18,598	12.8	21,754	12.5	24,724	13.0	5,646	11.9	6,179	13.0
Pearl River Delta	14,282	9.8	17,053	9.8	19,601	10.3	4,433	9.3	4,723	9.9
Bohai Rim	19,107	13.2	21,787	12.5	24,238	12.7	5,695	12.0	6,162	13.0
Central China	34,193	23.5	40,799	23.5	46,070	24.2	11,053	23.3	12,066	25.4
Western China	27,676	19.1	33,111	19.0	37,218	19.5	8,764	18.5	9,446	19.9
Northeastern China	13,871	9.6	14,953	8.6	15,121	7.9	3,711	7.8	3,779	8.0
Total operating income	**145,234**	**100.0%**	**173,875**	**100.0%**	**190,633**	**100.0%**	**47,430**	**100.0%**	**47,514**	**100.0%**

Our head office generated operating income primarily from treasury business, credit card business and corporate loans historically extended by the head office. Operating income of our head office represented 12.0%, 14.1%, 12.4% and 10.8% of our total operating income for the year ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016. Operating income of our head office increased by 39.5% from RMB17.5 billion in 2013 to RMB24.4 billion in 2014, reflecting the continued growth in our treasury business and credit card business. Operating income of our head office slightly decreased by 3.1% from RMB24.4 billion in 2014 to RMB23.7 billion in 2015, primarily due to a decrease in interest income from loans, which was partially offset by increases in investment gains from our treasury business and an increase in our credit card interest income. Operating income generated by our head office decreased by 36.5% to RMB5,159 million for the three months ended March 31, 2016 as compared to RMB8,128 million for the same period in 2015, primarily due to the decrease in operating income of our treasury business.

Operating income generated in Central China, Western China, Yangtze River Delta, Bohai Rim, Pearl River Delta and Northeastern China for the year ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016 increased, which was in line with the overall growth of our business in the same period.

CASH FLOWS

The following table sets forth our cash flows for the periods indicated. See "Appendix I — Accountant's Report — Consolidated Statements of Cash Flow."

	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(in millions of RMB)				
Net cash from operating activities	19,781	680,953	929,417	22,923	237,255
Net cash generated from/(used in) investing activities	(89,822)	(245,570)	(1,311,443)	(8,486)	145,916
Net cash generated from/(used in) financing activities	(320)	16,831	70,423	(11)	(5,038)
Net (decrease)/increase in cash and cash equivalents	**(70,361)**	**452,214**	**(311,603)**	**14,426**	**378,133**

Cash Flows from Operating Activities

Cash inflows from our operating activities are primarily attributable to (i) net increase in customer deposits and deposits from banks and other financial institutions, (ii) net increase in placements with banks and other financial institutions, and (iii) net decrease in deposits with banks and other financial institutions. Cash outflows from operating activities are primarily attributable to the net increases in loans to customers, deposits with central bank, and deposits with banks and other financial institutions.

Net cash from operating activities were RMB19.8 billion in 2013 as compared to RMB681.0 billion in 2014. Changes in cash flows from operating activities were primarily due to (i) the net decrease in deposits with central bank and deposits with banks and other financial institutions, (ii) the net increase in placements from banks and other financial institutions, and (iii) the net increase in customer deposits and deposits from banks and other financial institutions.

Net cash from operating activities amounted to RMB681.0 billion in 2014 as compared to RMB929.4 billion in 2015. Changes in cash flows from operating activities were primarily due to (i) the net decrease in deposits with central bank and deposits with banks and other financial institutions, and (ii) the net increase in placements from banks and other financial institutions.

Net cash from operating activities increased from RMB22.9 billion for the three months ended March 31, 2015 to RMB237.3 billion for the same period in 2016, primarily due to the growth in the net increase in customer deposits and deposits and placements from banks and other financial institutions.

Cash Flows Generated from/(Used in) Investing Activities

Cash inflows from our investing activities are primarily attributable to proceeds from disposal of investments and returns on investments received. The proceeds from disposal of investments for the years ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016 amounted to RMB314.6 billion, RMB261.5 billion, RMB584.1 billion and RMB529.3 billion, respectively. Returns on investments received for the years ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016 amounted to RMB43.6 billion, RMB58.2 billion, RMB81.1 billion and RMB22.5 billion, respectively.

Our cash outflows from investing activities are primarily attributable to cash paid for purchases of investment securities and interbank investments. Cash paid for purchases of investment instruments for the years ended December 31, 2013, 2014 and 2015 amounted to RMB440.1 billion, RMB555.9 billion and RMB1,971.5 billion, respectively. The increase in cash paid for purchase of investment instruments from 2014 to 2015 was primarily due to our increased investments in bonds, trust investment plans and commercial bank wealth management products. Cash paid for purchase of investment instruments increased from RMB65.1 billion for the three months ended March 31, 2015 to RMB404.8 billion for the same period in 2016, primarily reflecting an increase in the transaction volume of our investments in the first quarter of 2016.

Cash Flows Generated from/(Used in) Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from debt securities issued and from issuing shares to Shareholders. In September 2015, we issued tier-2 capital bonds with a principal amount of RMB25.0 billion. In December 2015, we issued 11,604,000,000 ordinary shares to ten Strategic Investors, and received aggregate proceeds in cash equivalent to RMB45.1 billion.

Our cash outflows from financing activities are primarily attributable to dividends paid in cash and interests paid on debt securities. The dividends paid in cash for the years ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016 amounted to RMB2.0 billion, nil, nil and RMB5.0 billion, respectively.

LIQUIDITY

We fund our loan and investment portfolios principally through our customer deposits. Customer deposits with remaining maturities of less than one year represented 92.9%, 91.8%, 92.6% and 92.9% of total customer deposits as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities — Liabilities and Sources of Funds" and "Supervision and Regulation — Other Risk Management Ratios."

We manage liquidity primarily 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. The major source of our funds is personal deposits and thus we have stable sources of funding. We have been focusing on maintaining stable sources of funding and increasing our customer deposits. Furthermore, to meet potential liquidity demand, we invest in highly liquid financial assets, such as government bonds and bonds issued by policy banks, and use deposits with central banks and deposits with banks and other financial institutions for the purposes of daily liquidity management and settlement. If further liquidity requirements arise, we have access to the interbank money market. See "Risk Management — Liquidity Risk Management."

The following table sets forth the remaining maturities of our assets and liabilities as of March 31, 2016.

	As of March 31, 2016							
	Overdue/ Undated	Repayable on demand	Less than 1 month	Between 1 and 3 Months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 years	Total
	(in millions of RMB)							
Financial Assets:								
Cash and deposits with central bank	1,105,526	224,290	—	—	—	—	—	1,329,816
Deposits with banks and other financial institutions	—	11,325	12,546	31,123	68,940	70,848	—	194,782
Placements with banks and other financial institutions	—	—	56,998	30,665	51,944	118,114	—	257,721
Financial assets at fair value through profit or loss	—	—	11,924	16,528	44,197	1,770	854	75,273
Derivative financial assets	—	—	660	232	451	35	—	1,378
Financial assets held under resale agreements	—	—	285,011	8,316	10,627	—	—	303,954
Loans and advances to customers	10,287	—	107,004	340,981	817,782	526,873	801,184	2,604,111
Available-for-sale financial assets	66	157,356	12,458	63,806	102,793	87,051	29,992	453,522
Held-to-maturity investments	—	—	8,646	13,890	36,721	312,976	305,203	677,436
Investment classified as receivables	—	—	82,316	131,312	150,884	532,343	806,729	1,703,584
Other financial assets	503	74	11,699	14,467	15,457	302	—	42,502
Total financial assets	**1,116,382**	**393,045**	**589,262**	**651,320**	**1,299,796**	**1,650,312**	**1,943,962**	**7,644,079**
Financial Liabilities:								
Deposits from banks and other financial institutions	—	69,408	5,648	15,902	105,038	675	—	196,671
Placements from banks and other financial institutions	—	—	25,210	910	49,000	—	—	75,120
Derivative financial liabilities	—	—	349	210	493	42	—	1,094
Financial assets sold under repurchase agreements	—	—	67,471	13,306	194,286	—	—	275,063
Financial liabilities at fair value through profit or loss	—	129	647	4,135	1,185	—	—	6,096
Customer deposits	—	2,806,331	326,097	531,615	2,590,080	478,258	—	6,732,381
Debt securities issued	—	—	—	—	—	—	24,974	24,974
Other financial liabilities	—	20,072	18,533	12,937	35,626	21,306	—	108,474
Total financial liabilities	**—**	**2,895,940**	**443,955**	**579,015**	**2,975,708**	**500,281**	**24,974**	**7,419,873**
Net liquidity gap	**1,116,382**	**(2,502,895)**	**145,307**	**72,305**	**(1,675,912)**	**1,150,031**	**1,918,988**	**224,206**
Cumulative liquidity gap	**1,116,382**	**(1,386,513)**	**(1,241,206)**	**(1,168,901)**	**(2,844,813)**	**(1,694,782)**	**224,206**	

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased to RMB187.9 billion as of December 31, 2014 from RMB141.0 billion as of December 31, 2013, which further increased to RMB270.8 billion as of December 31, 2015. As of March 31, 2016, our total shareholders' equity amounted to RMB273.8 billion. The following table sets forth, for the periods indicated, the components of the changes in our total equity attributable to shareholders.

	Shareholders' Equity
	(in millions of RMB)
As of December 31, 2012	**114,869**
Profit for the year	29,668
Other comprehensive income	(3,490)
Total comprehensive income for the year	26,178
Appropriations to surplus reserve	—
Appropriations to general reserve	—
Dividends	(2,000)
Capital contribution	2,000
As of December 31, 2013	**141,047**
Profit for the year	32,567
Other comprehensive income	4,295
Total comprehensive income for the year	36,862
Appropriations to surplus reserve	—
Appropriations to general reserve	—
Capital contribution	10,000
As of December 31, 2014	**187,909**
Profit for the year	34,857
Other comprehensive income	2,540
Total comprehensive income for the year	37,397
Appropriations to surplus reserve	—
Appropriations to general reserve	—
Capital contribution	45,525
As of December 31, 2015	**270,831**
Profit for the period	12,487
Other comprehensive income	(514)
Total comprehensive income for the period	11,973
Appropriations to surplus reserve	—
Appropriations to general reserve	—
Dividends	(9,000)
Capital contribution	—
As of March 31, 2016	**273,804**

Debt

On September 9, 2015, to increase our supplementary capital, we issued ten-year fixed interest rate tier-2 capital bonds with a nominal amount of RMB25.0 billion, which bear interest on an annual basis at the rate of 4.5% per annum. We can choose to redeem these bonds in part or in full on September 8, 2020 (being the last day of the fifth interest-bearing year) at nominal value. If we do not exercise the redemption right, from the sixth year on, the coupon rate will still be the rate of issue and remain unchanged during the rest of the term.

Capital Adequacy

We are subject to the capital adequacy requirements as promulgated by the CBRC. See "Supervision and Regulation — Supervision over Capital Adequay — Basel Accords."

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy, calculated under the Capital Administrative Measures (Provisional).

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(in millions of RMB, except percentages)			
Core tier-1 capital				
Share capital	47,000	57,000	68,604	68,604
Qualifying capital reserve	1,504	5,799	41,875	41,361
General reserve	58,512	66,887	84,754	84,754
Surplus reserve	9,668	12,925	16,411	16,411
Retained earnings	24,363	45,298	58,804	62,296
Qualifying non-controlling interests	—	—	11	19
Deductions of core tier-1 capital(1)	(815)	(934)	(1,451)	(1,553)
Net core tier-1 capital	**140,232**	**186,975**	**269,008**	**271,892**
Additional tier-1 capital	—	—	1	3
Net tier-1 capital	**140,232**	**186,975**	**269,009**	**271,895**
Tier-2 capital				
Qualifying tier-2 capital instruments and related premiums	—	—	25,000	25,000
Surplus allowance for impairment losses on loans	20,297	24,769	35,836	37,013
Qualifying non-controlling interests	—	—	3	5
Net capital(2)	**160,529**	**211,744**	**329,848**	**333,913**
Total risk-weighted assets	**1,816,168**	**2,214,818**	**3,153,015**	**3,255,410**
Core tier-1 capital adequacy ratio	**7.72%**	**8.44%**	**8.53%**	**8.35%**
Tier-1 capital adequacy ratio	**7.72%**	**8.44%**	**8.53%**	**8.35%**
Capital adequacy ratio	**8.84%**	**9.56%**	**10.46%**	**10.26%**

(1) Deductions of core tier-1 capital consist primarily of other intangible assets (excluding land use right).

(2) Also referred to in this prospectus as "regulatory capital."

As of December 31, 2013, 2014 and 2015 and March 31, 2016, our core tier-1 capital adequacy ratio was 7.72%, 8.44%, 8.53% and 8.35%, respectively, our tier-1 capital adequacy ratio was 7.72%, 8.44%, 8.53% and 8.35%, respectively, and our capital adequacy ratio was 8.84%, 9.56%, 10.46% and 10.26%, respectively, which were all in compliance with the CBRC requirements.

We plan to comply with the Capital Administrative Measures (Provisional) by (i) optimizing the capital allocation and consumption, (ii) strengthening the routine monitoring of the changes in capital and risk-weighted assets and maintaining balanced asset structure and good liquidity, and (iii) strengthening our capital replenishment capabilities through organic growth and developing a sustainable capital replenishment mechanism.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of irrevocable loan commitments, bank acceptances, issued letters of guarantee and guarantees and unused credit card limits. Loan commitments are our commitments to extend credit. We issue letters of guarantee and letters of credit to the third parties to guarantee our customers' performance of their obligations. Bank acceptances consist of the undertakings by us to pay the bills of exchange issued by 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,			As of March 31,
	2013	2014	2015	2016
	(in millions of RMB)			
Loan commitments:				
Contractual maturity within one year	2,649	920	7,279	1,721
Contractual maturity over one year (inclusive)	51,152	70,140	159,926	164,740
Subtotal	53,801	71,060	167,205	166,461
Bank acceptances	1,782	6,260	20,739	24,412
Guarantees and letters of guarantee	294	5,813	12,653	16,435
Letters of credit	10	285	2,960	3,962
Unused credit card limits	58,040	84,626	114,133	125,724
Total	**113,927**	**168,044**	**317,690**	**336,994**

Our off-balance sheet commitments increased by 47.5% from RMB113.9 billion at December 31, 2013 to RMB168.0 billion at December 31, 2014, which further increased by 89.1% to RMB317.7 billion at December 31, 2015, primarily due to an increase in our unused credit card limits and loan commitments during the same period, reflecting the growth in our personal banking and corporate banking businesses. As of March 31, 2016, our off-balance sheet commitments amounted to RMB337.0 billion.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the nominal value of our known contractual obligations by remaining contractual maturity classified into categories specified below as of March 31, 2016.

	As of March 31, 2016			
	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet				
Tier-2 capital bonds issued	—	—	25,000	25,000
Off-balance sheet				
Operating lease commitments	3,500	7,757	1,685	12,942
Redemption obligation	—	25,000	—	25,000
Capital commitments authorized or contracted for	1,410	933	1	2,344
Total	**4,910**	**33,690**	**26,686**	**65,286**

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties, such as accepting the agency services provided by China Post Group and its provincial branches, conducting operating leases with related parties, conducting services and products transactions with related parties, extending credit facilities to related parties, taking deposits from related parties, providing agency services to related parties and providing other banking services to related parties. These transactions were conducted on normal commercial terms in the ordinary course of our business. Our Directors believe that those related party transactions were carried out on an arm's length basis and would not affect our operating results during the Track Record Period or make such results not reflective of our future performance. See Note 39 to "Appendix I — Accountant's Report" to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk refers to the risk of losses to our on- and off-balance sheet businesses arising from unfavourable changes in market prices (including, among others, interest rates, exchange rates, stock prices, commodity prices). 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. We are primarily exposed to interest rate risk and exchange rate risk during the course of business. We adopt a centralized approach for market risk management process, including identification, measurement, monitoring and control. We are also exposed to market risk arising out of derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Interest Rate Risk

Our interest rate risk arises primarily from mismatches in the maturity or re-pricing periods of our banking book. Maturity mismatches may affect our net interest income 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 risk. In addition, different pricing bases for different products may also cause our exposure to interest rate risk of assets and liabilities during the same re-pricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile of our banking book based on our assessment of potential changes in the interest rate environment.

Re-pricing Gap Analysis

The following table sets forth, as of March 31, 2016, the results of our gap analysis based on our own assets and liabilities at the earlier of (i) the next expected re-pricing day, and (ii) the final maturity date.

	As of March 31, 2016						
	Within 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
	(in millions of RMB)						
Financial Assets:							
Cash and deposits with central bank	1,281,009	—	—	—	—	48,807	1,329,816
Deposits with banks and other financial institutions	53,871	70,463	53,470	16,978	—	—	194,782
Placements with banks and other financial institutions	57,998	67,773	46,043	85,907	—	—	257,721
Financial assets at fair value through profit or loss	12,266	16,771	43,874	1,428	854	80	75,273
Derivative financial assets	—	—	—	—	—	1,378	1,378

	As of March 31, 2016						
	Within 1 month	1 month to 3 months	3 months to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
	(in millions of RMB)						
Financial assets held under resale agreements	285,011	8,316	10,627	—	—	—	303,954
Loans and advances to customers	436,231	402,166	1,710,385	43,644	11,685	—	2,604,111
Available-for-sale financial assets	14,029	14,111	31,093	68,867	16,939	308,483	453,522
Held-to-maturity investments	15,066	40,271	76,537	246,477	299,085	—	677,436
Investment classified as receivables	143,592	302,365	871,010	216,994	169,623	—	1,703,584
Other financial assets	—	—	—	—	—	42,502	42,502
Total financial assets	**2,299,073**	**922,236**	**2,843,039**	**680,295**	**498,186**	**401,250**	**7,644,079**
Financial Liabilities:							
Deposits from banks and other financial institutions	75,056	15,902	105,038	675	—	—	196,671
Placements from banks and other financial institutions	25,210	910	49,000	—	—	—	75,120
Derivative financial liabilities	—	—	—	—	—	1,094	1,094
Financial assets sold under repurchase agreements	67,471	13,306	194,286	—	—	—	275,063
Financial liabilities at fair value through profit or loss	640	4,073	1,175	—	—	208	6,096
Customer deposits	3,131,584	531,615	2,590,080	478,258	—	844	6,732,381
Debt securities issued	—	—	—	—	24,974	—	24,974
Other financial liabilities	5	3	8	7	—	108,451	108,474
Total financial liabilities	**3,299,966**	**565,809**	**2,939,587**	**478,940**	**24,974**	**110,597**	**7,419,873**
Re-pricing gap	**(1,000,893)**	**356,427**	**(96,548)**	**201,355**	**473,212**	**290,653**	**224,206**
Cumulative re-pricing gap	**(1,000,893)**	**(644,466)**	**(741,014)**	**(539,659)**	**(66,447)**	**224,206**	

(1) The remaining maturities of assets classified as debt are the remaining contractual maturities of such securities and do not necessarily represent our intention to hold such securities up to the relevant maturities.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates assuming that all interest rates move by the same margin and the structure of financial assets and liabilities held at the period end remains unchanged, and does not take into account the changes in customer behavior, base rates or any prepayment options on debt securities. On the assumption that the Renminbi yield and foreign currency yield move in parallel, we calculate changes in net interest income of the current period and monitor the changes in net interest income against our annual budget for net interest income. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our then assets and liabilities as of the same date. Actual changes in our net interest income resulting from increase or decrease in interest rates may differ from the results of the following sensitivity analysis.

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	Change in net interest income	Change in net interest income	Change in net interest income	Changes in net interest income
	(in millions of RMB)			
100 basis-point increase	(5,103)	(5,108)	(7,112)	(7,096)
100 basis-point decrease	5,103	5,108	7,112	7,096

Based on our assets and liabilities as of March 31, 2016, if interest rates increase (or decrease) by 100 basis points, our net interest income for the year following March 31, 2016 would decrease (or increase) by RMB7,096 million.

Exchange Rate Risk

The primary source of our exchange rate risk arises from currency mismatches between our assets and liabilities. We mainly use net foreign currency positions to assess our exposure to exchange rate risk and manage exchange rate risk primarily by using our best efforts to match the assets and liabilities on a currency-by-currency basis.

The following table sets forth, as of March 31, 2016, our financial assets and liabilities analyzed by currency.

	As of March 31, 2016			
	RMB	US$	Others	Total
	(in millions of RMB equivalent)			
Financial Assets:				
Cash and deposits with central bank	1,327,957	1,799	60	1,329,816
Deposits with banks and other financial institutions	185,549	9,233	—	194,782
Placements with banks and other financial institutions	195,940	61,781	—	257,721
Financial assets at fair value through profit or loss	70,873	4,400	—	75,273
Derivative financial assets	1,001	304	73	1,378
Financial assets held under resale agreements	303,792	162	—	303,954
Loans and advances to customers	2,600,700	2,974	437	2,604,111
Available-for-sale financial assets	451,313	2,150	59	453,522
Held-to-maturity investments	676,348	1,088	—	677,436

	As of March 31, 2016			
	RMB	US$	Others	Total
	(in millions of RMB equivalent)			
Investment classified as receivables	1,703,584	—	—	1,703,584
Other financial assets	42,426	75	1	42,502
Total financial assets	**7,559,483**	**83,966**	**630**	**7,644,079**
Financial Liabilities:				
Deposits from banks and other financial institutions	193,175	3,496	—	196,671
Placements from banks and other financial institutions	65,000	10,098	22	75,120
Financial liabilities at fair value through profit or loss	5,967	129	—	6,096
Derivative financial liabilities	316	778	—	1,094
Financial assets sold under repurchase agreements	275,063	—	—	275,063
Customer deposits	6,723,495	8,410	476	6,732,381
Debt securities issued	24,974	—	—	24,974
Other financial liabilities	108,427	46	1	108,474
Total financial liabilities	**7,396,417**	**22,957**	**499**	**7,419,873**
Net on-balance sheet position	**163,066**	**61,009**	**131**	**224,206**
Net nominal amount of derivative financial instruments	**41,423**	**(40,097)**	**(1,091)**	**235**
Credit commitments	**327,668**	**8,701**	**625**	**336,994**

The following table sets forth the potential impact on our net profit resulting from foreign currency translation gains/(losses) with 1% fluctuation in U.S. dollar against Renminbi as of the dates indicated.

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(in millions of RMB)			
1% of appreciation of U.S. dollar against Renminbi	4	(31)	137	110
1% of depreciation of U.S. dollar against Renminbi	(4)	31	(137)	(104)

CAPITAL EXPENDITURE

Our capital expenditure for the years ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2016 was mainly used for purchase, construction and decoration of business offices, purchase of ATMs, development of information system and purchase of computers and other electronic equipment.

Our capital expenditure increased by 16.9% from RMB8,068 million in 2013 to RMB9,430 million in 2014, which decreased by 39.4% to RMB5,710 million in 2015. For the three months ended March 31, 2016, our capital expenditure was RMB1,055 million.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

We continually evaluate the critical accounting estimates and key judgments we apply based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions set forth below may cause material adjustments to the carrying amounts of assets and liabilities in the next accounting year.

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 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.

Actuarial Valuation of Early Retirement Benefits and Supplementary Post-employment Benefits Liabilities

We have recognized early retirement benefits and supplementary retirement benefits as liabilities, and performed actuarial valuation for the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits based on various assumptions. Such assumptions include discount rates, growth rates of expenses and mortality rates. Any differences between the actual results and assumptions are accounted in the current period in accordance with relevant accounting policies. The assumptions used are reasonable to the best knowledge of our management, but the actual experience or changes in assumptions will affect the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits.

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.

Control over Structured Entities

Where we act as asset manager of structured entities, we make judgment on whether we control the structured entities. The principle of control includes three factors: (i) power over investees; (ii) exposure or right to the variable returns of investees, and (iii) ability to affect those returns through our power over the investees. If evidence shows that the factors of the control change, we shall reassess whether we have control on the investees. When performing this assessment, we consider several factors including, among other things, the scope of our decision-making authority over the structured entities, the rights held by other parties, the remuneration to which we are entitled in accordance with the related agreements for the assets management services, our exposure to variability of returns from other interests (such as direct investment) that we hold in the structured entities. We perform re-assessment periodically.

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 2.2 to our historical financial information set forth in "Appendix I — Accountant's Report."

We are assessing the potential impact on our financial statements resulting from the application of IFRS 9, including assessing the need for any system modification related to expected credit loss model, updating policies for financial instruments impairment and 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 — IFRS 9 and its amendments may require us to change our provisioning practice for impairment of financial assets in the future."

Set forth below are the timetables of our system development, internal control policies updates and training programs formulated in order to comply with the requirements of IFRS 9.

Expected Credit Loss Model and Related Systems

We are conducting analysis for the risks of financial assets currently held by us and the expected credit loss model. We expect to start developing a new system program related to the expected credit loss model in the fourth quarter of 2016. We plan to complete the development of the new system related to the expected credit loss model in the third quarter of 2017.

Internal Procedures and Policies

We expect to update our internal control procedures and policies related to measurement of fair value and impairment of financial instruments in the third quarter of 2017.

Training Programs

We have arranged trainings for our staff. Staff from the risk management, finance and accounting and other related departments are required to attend trainings. The following table sets forth the expected timetable for these training programs:

Time period	Training programs
From the second quarter of 2016 to the third quarter of 2016	Preliminary theoretical trainings on IFRS 9
From the fourth quarter of 2016 to the first quarter of 2017	Theoretical and practical trainings on IFRS 9 (hedging, classification of financial assets/liabilities and expected credit loss model)
From the third quarter of 2017 to the fourth quarter of 2017	Trainings on relevant internal policies and systems

For other new accounting standards that come into effect after the prospectus date, see Note 2.2 to our historical financial information set forth in "Appendix I — Accountant's Report." We may put in place necessary changes to comply with the new standards from time to time.

INDEBTEDNESS

As of August 31, 2016, the latest practicable date for the purpose of ascertaining certain information contained in this description of indebtedness, we had the following indebtedness:

- tier-2 capital bonds with an aggregate principal amount of RMB25.0 billion which will mature on September 8, 2025;

- the deposits and money market positions taking from customers and other banks, and the balances under repurchase agreements that arose from the ordinary course of our banking business; and

- loan commitments, acceptances, letters of credit and letters of guarantee issued, other commitments, and contingencies that arose from the ordinary course of our banking business.

In June and September 2016, the CBRC and the PBOC, respectively, approved that we may issue tier-2 capital bonds in an aggregate principal amount of up to RMB50.0 billion. The proceeds to be raised from this issuance of bonds will be used to replenish our capital base. As of the date of this prospectus, we have not issued such bonds.

Except as disclosed above, we did not have any 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 as of August 31, 2016.

Our directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since August 31, 2016.

LISTING EXPENSES

We will incur listing expenses in connection with the Listing, which include professional fees, underwriting commissions and other fees. Assuming an Offer Price of HK$4.93 per H Share, being the mid-point of the range of the Offer Price as stated in this prospectus, the listing expenses to be borne by us are estimated to be RMB888.73 million. Listing expenses of approximately RMB26.21 million had been incurred as of March 31, 2016. Listing expenses of approximately RMB862.52 million are expected to be incurred after March 31, 2016, of which RMB23.48 million is expected to be charged to our consolidated statements of comprehensive income and RMB839.04 million is expected to be accounted for as a deduction from equity.

The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2016.

RULES 13.13 TO 13.19 OF THE LISTING RULES

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

DIVIDEND POLICY

In 2013, 2014, 2015 and for the three months ended March 31, 2016, we distributed total cash dividends of RMB2.0 billion, nil, nil and RMB5.0 billion, respectively.

In March 2016, we determined that cash dividends of RMB9.0 billion were payable to China Post Group out of the distributable profit for the period from January 1, 2015 to December 17, 2015, the closing date of the capital injection by the Strategic Investors. As of the Latest Practicable Date, we had fully paid such cash dividends of RMB9.0 billion to China Post Group. As approved by our Shareholders' general meeting, our existing and new Shareholders will be entitled to our accumulated undistributed profits prior to the Global Offering.

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of 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. 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.

When we formulate dividend policies, we attach importance to providing reasonable returns for our investors and keeping continuous and stable dividend policies, and meanwhile we consider our long-term benefit, overall benefits of our Shareholders and our own long-term sustainable development. We distribute dividends primarily in the form of cash. We may make interim dividend distribution when certain criteria are met.

Under PRC laws and our Articles of Association, we may only pay dividends out of our distributable profit. Our distributable profit represents the lowest of (i) our consolidated net profit attributable to our equity holders for a period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP, (ii) our unconsolidated net profit 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) our unconsolidated net profit of 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 net profits after tax of our Bank as determined under PRC GAAP, until such reserve reaches and maintains an amount equal to or exceeding 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, in principle, to maintain a general reserve no less than 1.5% of the balance of our risk assets before profit distributions. This general reserve constitutes part of our reserves. As of March 31, 2016, we have made an appropriation of RMB84.8 billion to the general reserve, which was in compliance with relevant MOF requirements in respect of general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, we ordinarily 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 and the general reserve. 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 has a capital adequacy ratio below the requirements, or has violated certain other PRC banking regulations, from paying dividends and making other forms of distributions. See "Supervision and Regulation — Supervision Over Capital Adequacy — CBRC Supervision over Capital Adequacy" and "Supervision and Regulation — Major Regulatory Authorities — CBRC." As of March 31, 2016, we had a capital adequacy ratio of 10.26% and a core tier-1 capital adequacy ratio of 8.35%, and a tier-1 capital adequacy ratio of 8.35%, which were all in compliance with relevant CBRC requirements.

Our Articles of Association stipulate that, except for special circumstances, we shall distribute not less than 10% of the net profit attributable to our Shareholders as cash dividends to Shareholders of our ordinary shares in any fiscal year. The special circumstances under which we may decide not to distribute cash dividend include that (i) we are subject to restrictions on dividend distribution under applicable laws, regulations and regulatory requirements, or (ii) distribution of cash dividend could affect the long-term benefit of our Shareholders. Our Board of Directors can propose to distribute share dividends and submit for Shareholders meeting's approval when we maintain regular operations and our Board of Directors considers our stock prices do not match the size of our share capital and issuing additional shares as dividends is in line with overall benefit of our Shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted consolidated net tangible assets of our Group which has been prepared based on our audited consolidated net tangible assets as of March 31, 2016, adjusted as described below. This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated financial position of our Group had the Global Offering been completed as of March 31, 2016 or any future date following the Global Offering.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared to show the effect on our audited consolidated net tangible assets as of March 31, 2016 as if the Global Offering had occurred on March 31, 2016. The unaudited pro forma adjusted consolidated net tangible assets per share are calculated in accordance with Listing Rules 4.29.

	Audited consolidated net tangible assets of our Group attributable to equity holders of our Bank as of March 31, 2016(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to equity holders of our Bank as of March 31, 2016(3)	Unaudited pro forma adjusted consolidated net tangible assets per share(4)	
	(in millions of RMB)			(RMB)	(HK$)(5)
Based on an Offer Price of HK$4.68 per Offer Share	271,849	47,913	319,762	3.96	4.60
Based on an Offer Price of HK$5.18 per Offer Share	271,849	53,037	324,886	4.03	4.69

(1) The audited consolidated net tangible assets attributable to our Bank's equity holders as of March 31, 2016 is based on the audited consolidated net assets of our Group attributable to our Bank's equity holders of approximately RMB273,426 million as of March 31, 2016, with an adjustment for the intangible assets of our Group of RMB1,577 million as of March 31, 2016.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$4.68 per share (being the minimum offer price) and HK$5.18 per share (being the maximum offer price), after deduction of the underwriting fees and other related listing expenses payable by us, taking no account of any shares which may be issued upon the exercise of the Over-allotment Option for the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results or other transactions of our Group subsequent to March 31, 2016.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived at after the adjustments referred to in note (2) above and on the basis that 80,710,588,000 shares are issued and outstanding assuming that the Global Offering has been completed on March 31, 2016 and that the Over-allotment Option for the Global Offering is not exercised.

(5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.86019 to HK$1.00000, the exchange rate set by the PBOC prevailing on September 2, 2016. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rate or at all.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since March 31, 2016, China's economy has maintained overall stable development. According to the NBS, China's GDP increased by 6.7% in the second quarter of 2016 compared to the same period of 2015, same as the growth rate in the first quarter of 2016, but such growth rate was the lowest quarterly growth since 2011. The slowdown in economic growth of China and specific industries may affect, to certain extent, results of operations and financial condition of the PRC commercial banks. For details of relevant risks, see "Risk Factors — Risks Relating to the PRC — The PRC economic, political and social conditions and government policies may affect our business, financial condition, results of operations and prospects."

Since the PBOC reformed the quotation mechanism for determining the mid-point price of Renminbi to the U.S. dollar on August 11, 2015, Renminbi has gradually depreciated against the U.S. dollar with fluctuations in exchange rates. On June 30, 2016, Renminbi depreciated against the U.S. dollar by approximately 3.0% compared to the exchange rate on March 31, 2016. As of the same date, 0.6% of our assets and 0.2% of our liabilities were denominated in foreign currencies. We believe that such changes in the exchange rate and depreciation of Renminbi against the U.S. dollar would not have a material impact on our results of operations and financial condition. For details of our risk management and control measures on exchange rate risk, see "Risk Management — Market Risk Management — Market Risk Management of Banking Book — Exchange Rate Risk Management."

Based on our unaudited management accounts, our net interest income decreased by 6.9% to RMB81.6 billion for the six months ended June 30, 2016 from RMB87.7 billion for the same period of 2015, primarily reflecting that (i) the PBOC consecutively reduced the benchmark interest rates in 2015 and we offered higher deposit interest rates than benchmark rates in response to the market competition, and (ii) under the new value-added tax regime effective May 1, 2016, value-added tax payables are deducted from our net interest income whereas, under the business tax regime in effect in 2015, business taxes were not deducted from our net interest income. Our net interest spread decreased to 2.34% for the six months ended June 30, 2016 from 2.74% for the same period of 2015, primarily due to (i) the consecutive reductions in the benchmark interest rates by the PBOC and the higher deposit interest rates than benchmark rates we offered in response to the market competition, and (ii) the above-mentioned effect of the transition from the business tax regime to the value-added tax regime. Our net interest margin decreased to 2.30% for the six months ended June 30, 2016 from 2.81% for the same period of 2015, primarily because our net interest income decreased whereas the average balance of our interest-earning assets continued to grow. As of June 30, 2016, our total assets amounted to RMB7,974.5 billion, representing an increase of 9.3% from RMB7,296.4 billion as of

December 31, 2015, primarily reflecting that (i) our loan portfolio continued to grow in line with our overall business growth, (ii) our investment portfolio continued to grow primarily attributable to our increased investments in commercial bank wealth management products with a short term, bonds and money market funds and (iii) our deposits with central bank and amounts due from banks and other financial institutions increased in line with our increased deposits from customers. Our non-performing loan ratio decreased from 0.80% as of December 31, 2015 to 0.78% as of June 30, 2016, primarily due to our strengthened risk management for loans and increased collection and disposal of non-performing loans. The unaudited financial information as of and for the six months ended June 30, 2016 was extracted from our unaudited interim financial information as of and for the six months ended June 30, 2016 which has been reviewed by our reporting accountant in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

In June and September 2016, the CBRC and the PBOC, respectively, approved that we may issue tier-2 capital bonds in an aggregate principal amount of up to RMB50.0 billion. The proceeds to be raised from this issuance of bonds will be used to replenish our capital base. As of the date of this prospectus, we have not issued such bonds. Other than the foregoing tier-2 capital bonds to be issued, we currently do not have any other financing plans.

Except as disclosed above, our Directors confirm that, since March 31, 2016 and up to the date of this prospectus, there has been no material adverse change in our financial position or trading position.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by our Directors that, in their opinion, the working capital available to us is sufficient 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 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 our Directors in this prospectus.

FUTURE PLANS

For details on our future plans, see "Business — Our Strategies."

USE OF PROCEEDS

Assuming an Offer Price of HK$4.68, being the low-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering (after deduction of underwriting commissions and estimated expenses borne by us in relation to the Global Offering) to be approximately HK$55,674 million, if the Over-allotment Option is not exercised; or approximately HK$64,036 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$4.93, being the mid-point of the proposed Offer Price range of HK$4.68 to HK$5.18, we estimate that the net proceeds of the Global Offering (after deduction of underwriting commissions and estimated expenses borne by us in relation to the Global Offering) to be approximately HK$58,652 million, if the Over-allotment Option is not exercised; or approximately HK$67,461 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$5.18, being the high-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering (after deduction of underwriting commissions and estimated expenses borne by us in relation to the Global Offering) to be approximately HK$61,630 million, if the Over-allotment Option is not exercised; or approximately HK$70,886 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.

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
UBS AG Hong Kong Branch
Merrill Lynch Far East Limited
J.P. Morgan Securities (Asia Pacific) Limited
Morgan Stanley Asia Limited
Goldman Sachs (Asia) L.L.C.
DBS Asia Capital Limited
China Merchants Securities (HK) Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Citigroup Global Markets Asia Limited
BOCOM International Securities Limited
CCB International Capital Limited
ICBC International Securities Limited
BOCI Asia Limited
Haitong International Securities Company Limited
ABCI Securities Company Limited
CMB International Capital Limited
First Capital Securities Limited
Sun Hung Kai Investment Services Limited
Essence International Securities (Hong Kong) Limited
China Galaxy International Securities (Hong Kong) Co., Ltd
China Securities (International) Corporate Finance Company Limited
Nomura International (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
CLSA Limited
Huarong International Securities Limited
Mizuho Securities Asia Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis on the terms and conditions set out in this prospectus, the Application Forms relating thereto and the Hong Kong Underwriting Agreement. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us on or before Thursday, September 22, 2016, the Global Offering will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 605,330,000 Hong Kong Offer Shares and the International Offering of initially 11,501,258,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be offered as mentioned in this prospectus pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among others, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange, any one of the events provided in (1) or (2) occurs, then the Joint Representatives may (on behalf of the Hong Kong Underwriters), after prior consultation with the Bank, in their sole and absolute discretion and upon giving notice in writing to the Bank, terminate the Hong Kong Underwriting Agreement:

(1) there develops, occurs, exists or comes into force:

   (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a "**Relevant Jurisdiction**"); or

   (b) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

(c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, 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, destruction of power plant, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS) and such related/mutated forms, economic sanction, in whatever form) 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 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), Russia, London, Singapore, the PRC, the European Union (or any member thereof), Japan or any 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

(f) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations or (B) any change or prospective change in Taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or

(g) any litigation or claim being threatened or instigated against any member of the Group; or

(h) a prohibition by competent Governmental Authority (as defined in the Hong Kong Underwriting Agreement) on the Bank for whatever reason from allotting, issuing or selling the H Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or

(i) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction on the Bank or other member of the Group;

which, in the sole and absolute opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters), after prior consultation with the Bank: (A) is or will be or is likely to be materially adverse to, or materially and prejudicially affects the principal business, results of operations, financial position, or prospects of the Bank or 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 and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus, the Application Forms, the Formal Notice, the Preliminary Offering Circular or the Offering Circular; or

(2) there has come to the notice of the any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

(j) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreements) and/or any announcements 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, incorrect or misleading unless such untrue, incomplete, incorrect or misleading statement is immaterial in the context of the Global Offering or has been properly rectified by the Bank in a timely manner or any forecasts, estimates, expressions of opinion, intention or expectation expressed in the Offering Documents so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

(k) non-compliance of the Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law in any material respect; or

(l) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Prospectus, not having been disclosed in the Prospectus, constitutes a material omission therefrom; or

(m) either there has been a breach of (i) any of the obligations, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Bank in any material respect or (ii) any of the representations, warranties and undertakings given by the Bank in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete, inaccurate in any material respect or misleading; or

(n) any event, act or omission which gives or is likely to give rise to any material liability of the Bank pursuant to the indemnities given by the Bank under the Hong Kong Underwriting Agreement; or

(o) any experts (other than the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in any of the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) or to the issue of any of the Hong Kong Public Offering Documents; or

(p) Admission (as defined in the Hong Kong Underwriting Agreement) 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

(q) the Bank has withdrawn the Prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings pursuant to the Listing Rules and the Hong Kong Underwriting Agreement

(A) 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 date on which our securities first commence dealings on the Hong Kong Stock Exchange (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, the Over-allotment Option or any of the circumstances provided under Rule 10.08 of the Listing Rules.

The Bank hereby undertakes to the Joint Sponsors and 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**"), it will not, without the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of, among others, 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 a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, claim, defect, right, interest or preference granted to any third party, or any other encumbrance or security interest of any kind (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 equity 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 represents the right to receive, or any warrants or other rights to purchase any share capital or other equity securities of the Bank, as applicable), or deposit any share capital or other equity 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 , as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of the Bank, as applicable); or

(c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or

(d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise. The Bank further agrees that, in the event the Bank is allowed to enter into any of the transactions described in Clause (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of 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 H Shares or other securities of the Bank.

(B) Undertakings by China Post Group as our controlling shareholder

Pursuant to Rule 10.07 of the Listing Rules, China Post Group has undertaken to the Stock Exchange and to the Bank that it will not and will procure that the relevant registered holder(s) will not:

(a) in the period commencing on the date by reference to which disclosure of its shareholding in the Bank is made in this prospectus and ending on the date which is six months from the date on which dealings in the H Shares commence on the Stock Exchange (the "**First Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any share of the Bank directly or indirectly beneficially owned by it (except for the shares to be transferred to NSSF as required by relevant PRC laws, regulations or rules); or

(b) in the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any shares of the Bank directly or indirectly beneficially owned by us, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be the controlling shareholder of the Bank.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, China Post Group has undertaken to the Stock Exchange and to the Bank that, within the period commencing on the date by reference to which disclosure of its shareholding in the Bank is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the H Shares commence on the Stock Exchange, it will:

(i) when it pledges and/or charges any shares or other securities of the Bank beneficially owned by it directly or indirectly in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Bank of such pledge and/or charge together with the number of Shares so pledged and/or charged; and

(ii) when it receives indications, either verbal or written, from the pledgee and/or chargee that any of the pledged and/or charged shares will be disposed of, immediately inform the Bank of such indications.

We will also, as soon as we have been informed of the above matters (if any) by China Post Group, inform the Stock Exchange and disclose such matters as soon as possible by way of an announcement to be published as required under the Listing Rules.

Hong Kong Underwriters' Interests in our Bank

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, 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 H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, it is expected that the International Underwriters would, severally and not jointly, agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Joint Representatives (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Bank to allot and issue up to an aggregate of 1,815,988,000 H Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering.

Commissions and Expenses

The Underwriters will receive a commission of 1.1% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. The Underwriters may receive an additional incentive fee of up to 0.5% of the Offer Price of all the Offer Shares.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay the underwriting commission attributable to such reallocated Hong Kong Offer Shares to the Joint Representatives and the relevant International Underwriters (but not the Hong Kong Underwriters). The underwriting commission was determined between our Bank and the Underwriters after arm's length negotiations with reference to current market conditions.

The aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK$1,033 million (assuming (i) an Offer Price of HK$4.93 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), (ii) the full payment of the discretionary incentive fee, and (iii) the Over-allotment Option is not exercised at all), are payable and borne by our Bank.

Joint Sponsors' Fee

An amount of US$100,000 is payable by our Bank as sponsor fees to each of the Joint Sponsors, totaling an amount of US$500,000.

Other Services Provided by the Underwriters

The Joint Representatives, the Joint Global Coordinators and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the Offer Shares offered by this prospectus. Such Joint Representatives, Joint Global Coordinators and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of the H Shares.

Indemnity

We have agreed to indemnify, among others, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement as the case may be.

INDEPENDENCE OF THE JOINT SPONSORS

China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited, Merrill Lynch Far East Limited and Goldman Sachs (Asia) L.L.C., four of the Joint Sponsors, satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

J.P. Morgan Securities (Far East) Limited, one of the Joint Sponsors, does not consider itself to be independent from the Bank according to Rule 3A.07 of the Listing Rules since, as disclosed in the section headed "Our Strategic Investors," (1) JPMorgan CICII, an indirectly wholly-owned subsidiary of JPMorgan, is a shareholder of the Bank with 0.94% shareholding; and (2) JPMorgan has entered into a strategic cooperation agreement with the Bank to provide assistance, support and training to the Bank for its various business lines.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilizing Manager or its affiliates or any person acting for them) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of initially 605,330,000 H Shares in Hong Kong as described below in the section entitled "The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of initially 11,501,258,000 H Shares to be offered to (i) in the United States to qualified institutional buyers in reliance on Rule 144A or another exemption from, or in transaction not subject to, the registration requirements of the U.S. Securities Act, and (ii) outside the United States in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Representatives, as representatives of the International Underwriters, have an option to require our Bank to issue and allot up to an aggregate of 1,815,988,000 additional Offer Shares, representing approximately 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to cover, among other things, over-allocation in the International Offering, if any.

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

The Offer Shares will represent approximately 15.00% of the enlarged issued share capital of the 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 16.87% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the section headed "Structure of the Global Offering — The International Offering — Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Bank is initially offering 605,330,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 5% of the total number of Offer Shares initially available under the Global Offering. The Hong Kong Offer Shares will represent approximately 0.75% of the Bank's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

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.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed "Structure of the Global Offering — Conditions of the Global Offering" below.

Allocation

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications to be received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly.

For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 302,665,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. 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. We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules to the effect as further described below:

- 605,330,000 Offer Shares available in the Hong Kong Public Offering, representing approximately 5% 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 907,996,000 Offer Shares, representing approximately 7.5% 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 1,210,660,000 Offer Shares, representing approximately 10% 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 2,421,318,000 Offer Shares, representing approximately 20% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he/she/it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$5.18 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "— Pricing of the Global Offering" below, is less than the maximum price of HK$5.18 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply for Hong Kong Offer Shares."

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

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an initial offering of 11,501,258,000 International Offer Shares representing approximately 95% of the Offer Shares under the Global Offering and approximately 14.25% of our Bank's enlarged share capital immediately after the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "— Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell the Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Bank and our Shareholders as a whole.

The Joint Representatives (on behalf of, among others, the Underwriters) may require any investor who has been offered the International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that he/she/it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Representatives on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Representatives have the right, exercisable at any time from the Listing Date until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, to require our Bank to issue and allot up to an aggregate of 1,815,988,000 additional Offer Shares, representing approximately 15% of the initial number of Offer Shares to be offered in the Global Offering, at Offer Share to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.20% of the Bank's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a usual practice used by underwriters in many markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or its affiliates or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases to be made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or its affiliates or any person acting for them to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering.

The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 1,815,988,000 H Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

(a) over-allocation for the purpose of preventing or minimising any reduction in the market price;

(b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any deduction in the market price;

(c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

(d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimising any reduction in the market price;

(e) selling the H Shares to liquidate a long position held as a result of those purchases; and

(f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or its affiliates or any person acting for them, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or its affiliates or any person acting for them, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or its affiliates or any person acting for them, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or its affiliates or any person acting for them, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Thursday, October 20, 2016. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or its affiliates or any person acting for them, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or its affiliates or any person acting for them, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by applicants. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring the International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Wednesday, September 21, 2016, and in any event on or before Thursday, September 22, 2016, by agreement between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$5.18 per Offer Share and is expected to be not less than HK$4.68 per Offer Share unless to be otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.**

The Joint Representatives, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Bank, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price stated below in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Bank will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and on the website of our Bank (**www.psbc.com**) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Representatives, on behalf of the Underwriters, and our Bank, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Bank and the Joint Representatives, will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Representatives may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of the initial Hong Kong Offer Shares shall not be less than 5% of the total number of Offer Shares in the Global Offering. The International Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives.

The net proceeds of the Global Offering accruing to our Bank (after deduction of underwriting commissions and other expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$55,674 million, assuming an Offer Price per Offer Share of HK$4.68, or approximately HK$61,630 million, assuming an Offer Price per Offer Share of HK$5.18 (or if the Over-allotment Option is exercised in full, approximately HK$64,036 million, assuming an Offer Price per Offer Share of HK$4.68, or approximately HK$70,886 million, assuming an Offer Price per Offer Share of HK$5.18).

The Offer Price under the Global Offering is expected to be announced on Tuesday, September 27, 2016. The indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Tuesday, September 27, 2016 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and on the website of our Bank (**www.psbc.com**).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Bank expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed "Underwriting."

ADMISSION OF THE H SHARES INTO CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Bank complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, September 28, 2016, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, September 28, 2016. Our H Shares will be traded in board lots of 1,000 H Shares each and the stock code of our H Shares will be 1658.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between the Joint Representatives (on behalf of, among others, the Joint Bookrunners and the Underwriters) and us on or before Thursday, September 22, 2016, the Global Offering will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Bank in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section entitled "How to Apply for Hong Kong Offer Shares." In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Tuesday, September 27, 2016 but will only become valid certificates of title at 8:00 a.m. on Wednesday, September 28, 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination" has not been exercised.

1. HOW TO APPLY

If you apply for the Hong Kong Offer Shares, then you may not apply for or indicate an interest for the International Offer Shares.

To apply for the Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Bank, the Joint Representatives, the **White Form** eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his/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 Representatives may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Bank and/or any its subsidiaries;
- a Director or chief executive officer of the Bank and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Bank or will become a connected person of the Bank immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, September 14, 2016 till 12:00 noon on Tuesday, September 20, 2016 from:

any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

UBS AG Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Merrill Lynch Far East Limited
55/F, Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central
Central
Hong Kong

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

DBS Asia Capital Limited
17/F, The Center
99 Queen's Road Central
Central
Hong Kong

China Merchants Securities (HK) Co., Ltd.
48/F, One Exchange Square
Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Citigroup Global Markets Asia Limited
50/F, Champion Tower
3 Garden Road
Central
Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

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

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

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

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

CMB International Capital Limited
Room 1803-4, 18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

First Capital Securities Limited
Unit 4512, 45/F, The Center
99 Queen's Road Central
Central
Hong Kong

Sun Hung Kai Investment Services Limited
42/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Essence International Securities (Hong Kong) Limited
39/F, One Exchange Square
Central
Hong Kong

China Galaxy International Securities (Hong Kong) Co., Ltd
Units 3501-7 & 3513-14, 35/F, Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Sheung Wan
Hong Kong

China Securities (International) Corporate Finance Company Limited
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Nomura International (Hong Kong) Limited
30/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
52/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Huarong International Securities Limited
28/F, AIA Central
1 Connaught Road Central
Hong Kong

Mizuho Securities Asia Limited
12th Floor, Chater House
8 Connaught Road Central
Hong Kong

any of the branches of the following receiving banks:

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Sheung Wan Branch	Shop 1-4, G/F, Tung Hip Commercial Building, 244-248 Des Voeux Road Central
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai
	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan
Kowloon......................	Mong Kok Branch	589 Nathan Road, Mong Kok
	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
	194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon
	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
New Territories...........	Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan

Bank of Communications Co., Ltd. Hong Kong Branch

	Branch	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Quarry Bay Sub-Branch	Shops 3 and 4 on G/F., 981A-981F King's Road, Chung Hing Mansion, Quarry Bay
Kowloon......................	Kwun Tong Sub-Branch	Shop E, Block G & H, G/F., East Sun Industrial Centre, 16 Shing Yip Street, Kwun Tong
New Territories...........	Tiu Keng Leng Sub-Branch	Shops Nos. L2-064 and L2-065, Level 2, Metro Town, Tiu Keng Leng
	Tai Po Sub-Branch	Shop No.1, 2, 26 & 27, G/F., Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po

Standard Chartered Bank (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Causeway Bay Branch	G/F to 2/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay
Kowloon......................	Kwun Tong Hoi Yuen Road Branch	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong
	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
New Territories...........	Shatin Plaza Branch	Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin
	Metroplaza Branch	Shop No. 175, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung

DBS Bank (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Head Office	G/F, The Center, 99 Queen's Road Central
	Hennessy Road Branch	427-429 Hennessy Road, Causeway Bay
Kowloon......................	Nathan Road Branch	G/F, Wofoo Commercial Building, 574-576 Nathan Road, Mongkok
New Territories...........	Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, September 14, 2016 till 12:00 noon on Tuesday, September 20, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED - POSTAL SAVINGS BANK OF CHINA 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:

- Wednesday, September 14, 2016 — 9:00 a.m. to 5:00 p.m.
- Thursday, September 15, 2016 — 9:00 a.m. to 5:00 p.m.
- Saturday, September 17, 2016 — 9:00 a.m. to 1:00 p.m.
- Monday, September 19, 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, September 20, 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, September 20, 2016, the last application day or such later time as described in the section headed "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) **undertake** to execute all relevant documents and instruct and authorize the Bank and/or the Joint Representatives (or their agents or nominees), as agents of the Bank, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) **agree** to comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) **agree** that none of the Bank, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;

(viii) **agree** to disclose to the Bank, our H Share Registrar, receiving banks, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of the Bank, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) **agree** that your application will be governed by the laws of Hong Kong;

(xii) **represent**, **warrant** and **undertake** that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) **warrant** that the information you have provided is true and accurate;

(xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) **authorize** the Bank to place your name(s) or the name of the HKSCC Nominees, on the Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Bank and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned as set out in "—15. Personal Collection" of this prospectus to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) **understand** that the Bank and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO Service Provider** by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or **give electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Bank. If you apply through the designated website, you authorize the **White Form eIPO Service Provider** to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO Service Provider** at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, September 14, 2016 until 11:30 a.m. on Tuesday, September 20, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, September 20, 2016 or such later time under the section headed "How to Apply for Hong Kong Offer Shares — 10. Effects of Bad Weather on the Opening of the Application Lists."

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO service** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of he Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 42E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** service is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO Service Provider**, will contribute HK$2 for each **Postal Savings Bank of China Co., Ltd. White Form eIPO** application submitted via the **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 the Bank, the Joint Representatives and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;

- declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that the Bank, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize the Bank to place HKSCC Nominees' name on the Bank's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing he application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Bank, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Bank, our H Share Registrar, receiving banks, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Bank agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Bank's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with the Bank, for itself and for the benefit of each Shareholder (and so that the Bank will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

- agree with the Bank, for itself and for the benefit of each of the Shareholder and each director, supervisor, manager and other senior officer of the Bank (and so that the Bank will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the Shareholder and each director, supervisor, manager and other senior officer of the Bank, with each CCASS Participant giving electronic application instructions):

  (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Bank to arbitration in accordance with the Articles of Association;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with the Bank (for the Bank itself and for the benefit of each shareholder of the Bank) that the H Shares are freely transferable by their holders;

- authorize the Bank to enter into a contract on its behalf with each director and officer of the Bank whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Bank or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for 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:

- Wednesday, September 14, 2016 — 9:00 a.m. to 8:30 p.m.(1)
- Thursday, September 15, 2016 — 8:00 a.m. to 8:30 p.m.(1)
- Saturday, September 17, 2016 — 8:00 a.m. to 1:00 p.m.
- Monday, September 19, 2016 — 8:00 a.m. to 8:30 p.m.(1)
- Tuesday, September 20, 2016 — 8:00 a.m.(1) to 12:00 noon

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 Wednesday, September 14, 2016 until 12:00 noon on Tuesday, September 20, 2016 (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, September 20, 2016, the last application day or such later time as described in the section headed "How to apply for Hong Kong Offer Shares — 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, the Bank and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Bank, the H Share Registrar, the receiving banks, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO Service Provider** to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Bank, the Directors, the Joint Representatives, the Joint

Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS 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, September 20, 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;

- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer 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**.

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 of the Global Offering"

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming 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, September 20, 2016. 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, September 20, 2016 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

The Bank expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, September 27, 2016 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Bank's website at **www.psbc.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Bank's website at **www.psbc.com** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, September 27, 2016;

- from the designated results of allocations website at www.iporesults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, September 27, 2016 to 12:00 midnight on Monday, October 3, 2016;

- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, September 27, 2016 to Friday, September 30, 2016;

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, September 27, 2016 to Thursday, September 29, 2016 at all the receiving banks' designated branches and sub-branches.

If the Bank accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in 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 **White Form eIPO Service Provider**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Bank.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Bank or its agents exercise their discretion to reject your application:

The Bank, the Joint Representatives, the **White Form eIPO Service Provider** and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Committee notifies the Bank of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the White Form eIPO service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Bank or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$5.18 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" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, September 27, 2016.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour 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, September 27, 2016. 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, September 28, 2016 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade the H Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

15. PERSONAL COLLECTION

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, September 27, 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, September 27, 2016, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, 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, September 27, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, September 27, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- ***If you apply through a designated CCASS participant (other than a CCASS investor participant)***

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- ***If you are applying as a CCASS investor participant***

The Bank will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "How to apply for Hong Kong Offer Shares — 11. Publication of Results" above. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, September 27, 2016 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 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, September 27, 2016, or such other date as notified by the Bank in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, September 27, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, September 27, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Bank expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Bank will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, September 27, 2016. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, September 27, 2016 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, September 27, 2016. 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, September 27, 2016.

16. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Bank's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the Directors of the Bank and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

September 14, 2016

The Directors
Postal Savings Bank of China Co., Ltd.
China International Capital Corporation Hong Kong Securities Limited
Morgan Stanley Asia Limited
Merrill Lynch Far East Limited
Goldman Sachs (Asia) L.L.C.
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We report on the financial information of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (together, the "Group"), which comprises the consolidated statements of financial position of the Group as at December 31, 2013, 2014 and 2015, and March 31, 2016, the statements of financial position of the Bank as at December 31, 2013, 2014 and 2015, and March 31, 2016 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flow for each of the years ended December 31, 2013, 2014 and 2015, and the three months ended March 31, 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the Directors of the Bank and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Bank dated September 14, 2016 (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, originally known as Postal Savings Bank of China Company Limited, was established on March 6, 2007 through restructuring of the postal savings system in the light of the finance system reform led by the State Council of the People's Republic of China ("China" or "PRC"). In 2011, with the approval from the Ministry of Finance of the PRC and China Banking Regulatory Commission, the Bank was restructured into a joint-stock bank. On January 21, 2012, the Bank officially changed its name to Postal Savings Bank of China Co., Ltd.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

As at the date of this report, the Bank has direct interests in the subsidiary as set out in Note 22 of Section II below. This subsidiary is a private company.

The Bank has prepared statutory consolidated financial statements of the Group as at December 31, 2013, 2014 and 2015 in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "CAS Financial Statements"). The CAS Financial Statements were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)).

The Directors of the Bank have also prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The Directors of the Bank are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with IFRS. The Underlying Financial Statements for each of the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2016 were audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing (the "ISA") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Bank.

The financial information presented below has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The Directors of the Bank are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Bank as at December 31, 2013, 2014 and 2015, and March 31, 2016 and of the Group's financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended March 31, 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The Directors of the Bank are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I FINANCIAL INFORMATION OF THE GROUP

(All amounts in millions of RMB unless otherwise stated)

The following is the financial information of the Group prepared by the Directors of the Bank as at December 31, 2013, 2014 and 2015, and March 31, 2016 and for each of the years ended December 31, 2013, 2014 and 2015, and the three months ended March 31, 2015 and 2016 (the "Financial Information"):

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,			Three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
Interest income	4	242,145	281,780	300,561	75,234	72,269
Interest expense	4	(103,172)	(113,964)	(121,302)	(30,262)	(30,569)
Net interest income	4	138,973	167,816	179,259	44,972	41,700
Fee and commission income	5	11,682	13,112	16,272	4,019	5,001
Fee and commission expense	5	(5,717)	(6,633)	(7,600)	(1,835)	(2,038)
Net fee and commission income	5	5,965	6,479	8,672	2,184	2,963
Net trading gains/(losses)	6	(209)	128	275	(139)	563
Net gains/(losses) on investment securities	7	(252)	(1,325)	946	117	2,012
Other operating income	8	757	777	1,481	296	276
Operating income		145,234	173,875	190,633	47,430	47,514
Operating expenses	9	(101,466)	(114,126)	(123,610)	(28,510)	(31,103)
Impairment losses on assets	11	(8,674)	(20,412)	(25,635)	(4,806)	(2,128)
Profit before income tax		35,094	39,337	41,388	14,114	14,283
Income tax expenses	12	(5,426)	(6,770)	(6,531)	(2,858)	(1,796)
Net profit		29,668	32,567	34,857	11,256	12,487
Net profit attributable to						
Shareholders of the Bank		29,668	32,567	34,859	11,256	12,492
Non-controlling interests		—	—	(2)	—	(5)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)

(All amounts in millions of RMB unless otherwise stated)

		Year ended December 31,			Three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
Other comprehensive income:						
Items that will not be reclassified to profit or loss						
Remeasurement of retirement benefit obligations		—	—	(97)	(77)	—
Subtotal		—	—	(97)	(77)	—
Items that may be reclassified subsequently to profit or loss						
Changes in fair value of available-for-sale financial assets		(4,535)	5,751	3,613	(733)	(662)
Amortization of unrealized fair value changes after reclassification to held-to-maturity investments		(119)	(25)	(97)	(24)	(23)
Less: related income tax impact		1,164	(1,431)	(879)	189	171
Subtotal		(3,490)	4,295	2,637	(568)	(514)
Total comprehensive income for the year/period		26,178	36,862	37,397	10,611	11,973
Total comprehensive income attributable to:						
Shareholders of the Bank		26,178	36,862	37,399	10,611	11,978
Non-controlling interests		—	—	(2)	—	(5)
Basic and diluted earnings per share (in RMB Yuan)						
Basic/Diluted	13	0.66	0.69	0.61	0.20	0.18

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(All amounts in millions of RMB unless otherwise stated)

	Note	As at December 31, 2013	2014	2015	As at March 31, 2016
Assets					
Cash and deposits with central bank	14	1,225,708	1,389,759	1,131,231	1,329,816
Deposits with banks and other financial institutions	15	1,044,604	730,217	324,137	194,782
Placements with banks and other financial institutions	16	93,482	113,754	200,485	257,721
Financial assets at fair value through profit or loss	17	4,482	9,898	27,719	75,273
Derivative financial assets	18	289	426	1,073	1,378
Financial assets held under resale agreements	19	387,187	557,523	148,868	303,954
Loans and advances to customers	20	1,463,260	1,832,067	2,412,595	2,604,111
Investment instruments					
Available-for-sale financial assets	21	136,638	138,331	390,683	453,522
Held-to-maturity investments	21	681,604	661,513	684,767	677,436
Investment classified as receivables	21	454,717	770,480	1,883,498	1,703,584
Property and equipment	23	31,511	36,331	36,546	36,360
Deferred tax assets	24	4,315	6,998	9,199	9,179
Other assets	25	46,654	51,028	45,563	60,518
Total assets		5,574,451	6,298,325	7,296,364	7,707,634
Liabilities					
Deposits from banks and other financial institutions	27	25,160	40,619	91,351	196,671
Placements from banks and other financial institutions	28	12,255	18,264	70,859	75,120
Financial liabilities at fair value through profit or loss	29	—	—	4,139	6,096
Derivative financial liabilities	18	304	420	1,039	1,094
Financial assets sold under repurchase agreements	30	75,494	115,918	394,817	275,063
Customer deposits	31	5,206,468	5,802,946	6,305,014	6,732,381
Debt securities issued	32	—	—	24,973	24,974
Other liabilities	33	113,723	132,249	133,341	122,431
Total liabilities		5,433,404	6,110,416	7,025,533	7,433,830
Equity					
Share capital	34	47,000	57,000	68,604	68,604
Capital reserve	35	3,448	3,448	36,887	36,887
Other reserves	36	66,236	82,163	106,153	105,639
Retained earnings		24,363	45,298	58,804	62,296
Equity attributable to shareholders of the Bank		141,047	187,909	270,448	273,426
Non-controlling interests		—	—	383	378
Total equity		141,047	187,909	270,831	273,804
Total equity and liabilities		5,574,451	6,298,325	7,296,364	7,707,634

STATEMENTS OF FINANCIAL POSITION OF THE BANK

(All amounts in millions of RMB unless otherwise stated)

	Note	As at December 31, 2013	2014	2015	As at March 31, 2016
Assets					
Cash and deposits with central bank	14	1,225,708	1,389,759	1,131,231	1,329,743
Deposits with banks and other financial institutions	15	1,044,604	730,217	323,517	194,542
Placements with banks and other financial institutions	16	93,482	113,754	200,485	257,721
Financial assets at fair value through profit or loss	17	4,482	9,898	27,719	75,273
Derivative financial assets	18	289	426	1,073	1,378
Financial assets held under resale agreements	19	387,187	557,523	148,868	303,954
Loans and advances to customers	20	1,463,260	1,831,769	2,412,235	2,603,363
Investment instruments					
Available-for-sale financial assets	21	136,638	138,331	390,583	453,522
Held-to-maturity investments	21	681,604	661,513	684,767	677,436
Investment classified as receivables	21	454,717	770,778	1,883,741	1,703,687
Investment in a subsidiary	22	—	—	615	615
Property and equipment	23	31,511	36,331	36,531	36,347
Deferred tax assets	24	4,315	6,998	9,197	9,174
Other assets	25	46,654	51,028	45,526	60,478
Total assets		5,574,451	6,298,325	7,296,088	7,707,233
Liabilities					
Deposits from banks and other financial institutions	27	25,160	40,619	91,492	196,678
Placements from banks and other financial institutions	28	12,255	18,264	70,859	75,120
Financial liabilities at fair value through profit or loss	29	—	—	4,139	6,096
Derivative financial liabilities	18	304	420	1,039	1,094
Financial assets sold under repurchase agreements	30	75,494	115,918	394,817	275,063
Customer deposits	31	5,206,468	5,802,946	6,305,014	6,732,381
Debt securities issued	32	—	—	24,973	24,974
Other liabilities	33	113,723	132,249	133,303	122,393
Total liabilities		5,433,404	6,110,416	7,025,636	7,433,799
Equity					
Share capital	34	47,000	57,000	68,604	68,604
Capital reserve	35	3,448	3,448	36,887	36,887
Other reserves	36	66,236	82,163	106,153	105,639
Retained earnings		24,363	45,298	58,808	62,304
Total equity		141,047	187,909	270,452	273,434
Total equity and liabilities		5,574,451	6,298,325	7,296,088	7,707,233

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank								
				Other reserves						
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total Equity
As at January 1, 2013		45,000	3,448	6,677	33,318	1,546	24,880	114,869	—	114,869
Profit for the year		—	—	—	—	—	29,668	29,668	—	29,668
Other comprehensive income		—	—	—	—	(3,490)	—	(3,490)	—	(3,490)
Total comprehensive income for the year		—	—	—	—	(3,490)	29,668	26,178	—	26,178
Appropriations to surplus reserve	36	—	—	2,991	—	—	(2,991)	—	—	—
Appropriations to general reserve	36	—	—	—	25,194	—	(25,194)	—	—	—
Dividends	37	—	—	—	—	—	(2,000)	(2,000)	—	(2,000)
Capital contribution	34	2,000	—	—	—	—	—	2,000	—	2,000
As at December 31, 2013		47,000	3,448	9,668	58,512	(1,944)	24,363	141,047	—	141,047
As at January 1, 2014		47,000	3,448	9,668	58,512	(1,944)	24,363	141,047	—	141,047
Profit for the year		—	—	—	—	—	32,567	32,567	—	32,567
Other comprehensive income		—	—	—	—	4,295	—	4,295	—	4,295
Total comprehensive income for the year		—	—	—	—	4,295	32,567	36,862	—	36,862
Appropriations to surplus reserve	36	—	—	3,257	—	—	(3,257)	—	—	—
Appropriations to general reserve	36	—	—	—	8,375	—	(8,375)	—	—	—
Capital contribution	34	10,000	—	—	—	—	—	10,000	—	10,000
As at December 31, 2014		57,000	3,448	12,925	66,887	2,351	45,298	187,909	—	187,909

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)

(All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank								
				Other reserves						
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total Equity
As at January 1, 2015		57,000	3,448	12,925	66,887	2,351	45,298	187,909	—	187,909
Profit for the year		—	—	—	—	—	34,859	34,859	(2)	34,857
Other comprehensive income		—	(97)	—	—	2,637	—	2,540	—	2,540
Total comprehensive income for the year		—	(97)	—	—	2,637	34,859	37,399	(2)	37,397
Appropriations to surplus reserve	36	—	—	3,486	—	—	(3,486)	—	—	—
Appropriations to general reserve	36	—	—	—	17,867	—	(17,867)	—	—	—
Share issuance	34	11,604	33,536	—	—	—	—	45,140	—	45,140
Capital injection by non-controlling interest in setting up a subsidiary	22	—	—	—	—	—	—	—	385	385
As at December 31, 2015		68,604	36,887	16,411	84,754	4,988	58,804	270,448	383	270,831
As at January 1, 2015		57,000	3,448	12,925	66,887	2,351	45,298	187,909	—	187,909
Profit for the period		—	—	—	—	—	11,256	11,256	—	11,256
Other comprehensive income		—	(77)	—	—	(568)	—	(645)	—	(645)
Total comprehensive income for the period		—	(77)	—	—	(568)	11,256	10,611	—	10,611
As at March 31, 2015 (unaudited)		57,000	3,371	12,925	66,887	1,783	56,554	198,520	—	198,520
As at January 1, 2016		68,604	36,887	16,411	84,754	4,988	58,804	270,448	383	270,831
Profit for the period		—	—	—	—	—	12,492	12,492	(5)	12,487
Other comprehensive income		—	—	—	—	(514)	—	(514)	—	(514)
Total comprehensive income for the period		—	—	—	—	(514)	12,492	11,978	(5)	11,973
Dividends	37	—	—	—	—	—	(9,000)	(9,000)	—	(9,000)
As at March 31, 2016		68,604	36,887	16,411	84,754	4,474	62,296	273,426	378	273,804

CONSOLIDATED STATEMENTS OF CASH FLOW

(All amounts in millions of RMB unless otherwise stated)

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax	35,094	39,337	41,388	14,114	14,283
Adjustments for:					
Amortization of intangible assets and other assets	1,689	1,693	1,477	398	298
Depreciation of property and equipment and investment properties	3,291	3,297	3,340	810	824
Impairment losses on assets	8,674	20,412	25,635	4,806	2,128
Interest income arising from investment instruments	(47,483)	(59,166)	(81,430)	(18,426)	(27,229)
Interest expense arising from debt securities issued	—	—	348	—	280
Net losses/(gains) on investment securities	252	1,325	(946)	(117)	(2,012)
Net losses from disposal of property, equipment and other assets	13	14	14	1	2
	1,530	6,912	(10,174)	1,586	(11,426)
NET CHANGES IN OPERATING ASSETS AND OPERATING LIABILITIES					
Net (increase)/decrease in deposits with central bank, banks and other financial institutions	(286,849)	306,835	514,951	(88,659)	96,052
Net increase in placements with banks and other financial institutions	(55,397)	(16,105)	(55,786)	(1,462)	(9,021)
Net increase/(decrease) in placements from banks and other financial institutions	7,118	6,009	52,596	(9,146)	4,260
Net (increase)/decrease in financial assets held under resale agreement	(14,246)	121,520	216,437	91,547	2,096
Net increase/(decrease) in financial assets sold under repurchase agreement	61,618	40,424	278,899	(79,932)	(119,754)

CONSOLIDATED STATEMENTS OF CASH FLOW (CONT'D)

(All amounts in millions of RMB unless otherwise stated)

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Net increase in loans and advances to customers	(262,983)	(393,107)	(603,191)	(175,769)	(195,767)
Net increase in customer deposits and deposits from banks and other financial institutions	552,945	611,937	552,801	319,073	532,688
Net increase in other operating assets	(1,377)	(11,141)	(8,411)	(14,725)	(45,109)
Net increase/(decrease) in other operating liabilities	22,801	15,940	1,519	(18,037)	(15,863)
Cash from operations	25,160	689,224	939,641	24,476	238,156
Income tax paid	(5,379)	(8,271)	(10,224)	(1,553)	(901)
NET CASH FROM OPERATING ACTIVITIES	19,781	680,953	929,417	22,923	237,255
Net cash flows from operating activities include:					
Interest received	187,870	224,061	224,900	57,296	45,729
Interest paid	(87,932)	(104,638)	(116,180)	(42,563)	(44,843)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash received from disposal of investment instruments	314,642	261,450	584,112	44,176	529,322
Cash received from interest income arising from investment instruments	43,613	58,237	81,089	13,387	22,480
Cash paid for purchase of investment instruments	(440,067)	(555,877)	(1,971,452)	(65,087)	(404,835)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets	(8,068)	(9,430)	(5,710)	(963)	(1,055)
Cash received from disposal of property and equipment, intangible assets and other long-term assets	58	50	518	1	4
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	(89,822)	(245,570)	(1,311,443)	(8,486)	145,916

CONSOLIDATED STATEMENTS OF CASH FLOW (CONT'D)

(All amounts in millions of RMB unless otherwise stated)

		Year ended December 31,			Three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash received from capital contributions		2,000	10,000	45,140	—	—
Cash received from non-controlling interests		—	—	385	—	—
Dividends paid or interest paid on debt securities issued		(2,000)	—	—	—	(5,000)
Cash received from issuing debt securities		—	—	24,972	—	—
Cash received from issuing the asset-backed securities		—	6,948	—	—	—
Cash paid relating to other financing activities		(320)	(117)	(74)	(11)	(38)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		(320)	16,831	70,423	(11)	(5,038)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(70,361)	452,214	(311,603)	14,426	378,133
Balance of cash and cash equivalents at beginning of year/period		156,299	85,740	537,941	537,941	227,361
Effect of foreign exchange rate changes		(198)	(13)	1,023	1	(198)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	38	85,740	537,941	227,361	552,368	605,296

II NOTES TO THE FINANCIAL INFORMATION

(All amounts in millions of RMB unless otherwise stated)

1 General information

Postal Savings Bank of China Co., Ltd. (hereinafter referred to as the "Bank" or "PSBC")) is a joint-stock commercial bank controlled by China Post Group. The Bank, originally known as Postal Savings Bank of China Company Limited (hereinafter referred to as the "Company") was established on March 6, 2007 ("establishment date") through restructuring of the postal savings system.

In 2011, with the approval from the Ministry of Finance of the People's Republic of China (hereinafter referred to as the "MOF") and China Banking Regulatory Commission (hereinafter referred to as the "CBRC"), the Company was restructured into a joint-stock bank, with China Post Group as the sole sponsor. On January 21, 2012, the Bank obtained its business license (No.100000000040768) from the State Administration for Industry and Commerce, and officially changed its name to Postal Savings Bank of China Co., Ltd.

On December 8, 2015, the Bank received *Approval On PSBC's Application for Capital Increase and Share Enlargement and Introduction of Strategic Investors from CBRC (中國銀監會關於郵政儲蓄銀行增資擴股暨引進戰略投資者的批覆)* . CBRC approved PSBC's private placement of no more than 11.604 billion new shares to UBS AG, China Life Insurance Company Limited, China Telecommunications Corporation, Canada Pension Plan Investment Board, Zhejiang Ant Small and Micro Financial Services Group Ltd., JPMorgan China Investment Company II Limited, Fullerton Management Pte Ltd., International Finance Corporation, DBS Bank Ltd. and Shenzhen Tencent Domain Computer Network Company Limited (hereinafter referred to as the "Strategic Investors"). Pursuant to the approval, the Bank's total shares would be enlarged to 68.604 billion. As at December 31, 2015, the Bank received total capital contribution of approximately RMB45.14 billion from the Strategic Investors. In March 2016, the Bank completed the corresponding business registration update, and the Bank's registered capital was changed to RMB68.604 billion.

The Bank, as approved by the CBRC, holds a financial institution license of the People's Republic of China (No.B0018H111000001).

The Bank and its subsidiary (hereinafter referred to as the "Group") conducts its operating activities in the People's Republic of China ("China" or "PRC"), and its principal activities include: corporate and personal financial services, treasury operations and other business activities as approved by the CBRC.

2 Significant accounting policies

The significant accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the relevant periods presented, unless otherwise stated.

(All amounts in millions of RMB unless otherwise stated)

2.1 ***Statement of compliance and basis of preparation***

The Financial Information has been prepared in accordance with the International Financial Reporting Standards ("IFRS"), which collectively include International Accounting Standards and related interpretations issued by the International Accounting Standards Board (the "IASB"). The financial information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Financial Information have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss (including derivative instruments).

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.

2.2 ***Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group***

Standards and amendments that have been issued but are not yet effective and have not been early adopted by the Group as of the relevant periods are as follows:

	Effective for accounting periods beginning on or after
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture	January 1, 2016*
IFRS 9, Financial Instruments (2014)	January 1, 2018
IFRS 15, Revenue from contracts with customers	January 1, 2018
IFRS 16, Leases	January 1, 2019

* The amendments was originally intended to be effective for annual periods beginning on or after January 1, 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

(All amounts in millions of RMB unless otherwise stated)

The Group is in the process of assessing the impact of the new standards and amendments on the Financial Information. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Financial Information except for the followings:

IFRS 9 Financial Instruments

IFRS 9, published in July 2014 and effective for annual periods beginning on or after January 1, 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 are subsequently measured at amortized cost of fair value under IFRS 9. 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 and their fair value changes are recognized in profit or loss. In addition, under IFRS 9, 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. All of the above represent new requirements for classification and measurement for financial assets under IFRS 9 that will change the way the Group classifies and measures its financial assets in 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' and 'available-for-sale financial assets' under the existing IAS 39.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an equity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

(All amounts in millions of RMB unless otherwise stated)

- The new general hedge accounting requirements retain the types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that quality for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an equity's risk management activities have also been introduced.

The Bank 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 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 Bank 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.

The Bank has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Bank's operating results and financial position has not yet been quantified.

IFRS 15 Revenue from contracts with customers

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation transferred to customers. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required under IFRS 15.

The Group assesses that adopting IFRS 15 would not have a material impact to the Group's financial information.

(All amounts in millions of RMB unless otherwise stated)

IFRS 16 Lease

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 recognize 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 recognize 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 March 31, 2016, the Group has non-cancellable operating lease commitments of RMB12.9 billion, see note 41.4. However, the Group has not yet determined 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.

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.

2.3 ***Consolidation***

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank, a subsidiary and all structured entities under the Bank's control (Note 40).

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

(All amounts in millions of RMB unless otherwise stated)

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities ("SEs") in which the Group acts as an asset manager. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group. Inter-group transactions, balances and unrealized profits on transactions between companies of the Group are eliminated in the consolidated financial statements.

In the Bank's statement of financial position, investment in subsidiary is accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiary is accounted for by the Bank on the basis of dividend received and receivable.

Impairment testing of investment in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared, or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 ***Revenue recognition***

(1) *Interest income*

Interest income for all interest-bearing instruments is recognized in the consolidated income statement based on the effective interest method. Interest income includes the amortization of a discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

(All amounts in millions of RMB unless otherwise stated)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(2) *Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

2.5 ***Foreign currency translation***

The functional currency and presentation currency of the Group is Renminbi ("RMB").

Foreign currency transactions are recorded in accordance with the prevailing rates at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the prevailing rates at the date of the transactions.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognized in the income statement.

Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the prevailing rates at the date of the transactions. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from re-translation of non-monetary items in respect of financial assets classified as available-for-sale are recognized in other comprehensive income; other exchange differences are recognized directly in profit and loss.

2.6 ***Taxation***

Income tax expense comprises current and deferred tax.

(All amounts in millions of RMB unless otherwise stated)

Current tax

The current income tax charge is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax charge is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.7 ***Employee benefits***

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, retirement benefits and early retirement benefits.

(All amounts in millions of RMB unless otherwise stated)

(1) *Short-term employee benefits*

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement.

(2) *Retirement benefits*

The Group's retirement benefits include defined contribution plans and defined benefit plans. Under defined contribution plans, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. All other plans are classified as defined benefit plans.

The Group's retirement benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, annuity scheme and supplementary retirement benefit, among which, social welfare program and annuity scheme are defined contribution plans and supplementary retirement benefit is defined benefit plan.

Basic pensions

Basic pensions refers to payments related to government mandated social welfare programs, including social insurance, medical insurance, housing funds and other social welfare contributions. Contributions are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

Annuity scheme

In addition to the statutory pension schemes, the Group's employees also participate in the annuity scheme set up by the Group under *Annuity Scheme of Postal Savings Bank of China Co., Ltd.* (the "Annuity Scheme") in accordance with the state's corporate annuity regulations. The annuity contributions are paid by the Group in proportion to its employees' gross salaries, and are expensed in the consolidated income statement of the current period. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Supplementary retirement benefit

The Group gives supplementary retirement benefits to retired staff who are qualified before December 31, 2010. The supplementary retirement benefits include supplementary pensions and supplementary medical benefits. The retirement benefits plan is defined benefit plan, and is usually determined by one or several factors such as age, length of service and compensation.

(All amounts in millions of RMB unless otherwise stated)

The liabilities recognized in relation to the above defined benefit pension plan in the consolidated statement of financial position are the present values of defined benefit liabilities at the end of reporting period. The present value of defined benefit liability is based on the expected future cash outflow which is discounted by the government debt interest rate similar to employee benefit liability. The estimate of future cash outflows is affected by various assumed conditions, including inflation rate of pension, inflation rate of medical benefits and other factors. Gains and losses adjusted in accordance with historical experience and assumed movements are included in other comprehensive income when incurred.

(3) *Early retirement benefits*

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement.

2.8 ***Financial instruments***

Financial assets and liabilities are recognized in the consolidated statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated income statement.

(1) *Financial assets*

The Group's financial assets are classified into four categories — financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired and is determined at the time of initial recognition.

(All amounts in millions of RMB unless otherwise stated)

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories — financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed maturities and fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

(All amounts in millions of RMB unless otherwise stated)

When the Group sells or reclassifies a significant amount of financial assets classified as held-to-maturity during the reporting period due to reasons other than the exceptions allowed by accounting standards, the remaining held-to-maturity assets are reclassified as available-for-sale financial assets and no financial assets will be classified as held-to-maturity assets for the reporting period and the subsequent two full financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets refer to the designated or not classified as the financial assets at fair value through profit or loss, loans and receivables, or non-derivative financial assets of held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the consolidated income statement.

Equity investments classified as available-for-sale that do not have a quoted price in an active market and whose fair value cannot be reliably determined are measured at cost, less any impairment losses, at the end of each reporting period.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method and recorded as an element of interest income in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group's right to receive such payments is established.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the financial assets have been adversely affected.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

(All amounts in millions of RMB unless otherwise stated)

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider previously;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of significant financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - — adverse changes in the payment status of borrowers in the portfolio, and
  - — national or local economic conditions that correlate with defaults on the assets in the portfolio.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in the consolidated income statement when there is objective evidence that the assets are impaired. The impairment loss 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 financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

(All amounts in millions of RMB unless otherwise stated)

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment of financial assets classified as available-for-sale

At the end of each reporting period, the Group assesses whether there is objective evidence shows that a financial asset or a financial asset group is impaired. For debt securities, the standards above are applicable. For investment classified as available-for-sale equity, it is also an impairment evidence if the fair value of the equity instruments is significantly or prolonged lower than the cost. If the evidence exists for available-for-sale financial assets, the accumulated loss of investment revaluation reserve which was originally included in other comprehensive income shall be reclassified into the consolidated income statement for the period impairment incurred.

An impairment loss on an equity investment classified as available-for-sale, and carried at fair value, is not reversed through the consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. An impairment loss on an equity investment classified as available-for-sale equity investment, and carried at cost, is not reversed. An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through the consolidated income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(2) *Financial liabilities*

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities, carried at amortized cost.

(3) *Derivative financial instruments*

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gains or losses are recognized in the consolidated income statement. The derivative financial instruments are held by the Group for managing risk exposures.

(All amounts in millions of RMB unless otherwise stated)

(4) *Determination of fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

(5) *Derecognition*

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when the Group becomes a party of related financial instrument contractual terms.

A financial asset is derecognized when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expired; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to another entity; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration and the cumulative changes in fair value that had been recognized directly in equity, is recognized in profit or loss for the current period.

Where the Group has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset, or transferred control of the financial assets, the asset are recognized to the extent of the Group's continuing involvement of the financial asset. The financial asset is derecognized if the Group has not retained control. The rights and obligations arising from transfer are separately recognized as assets or liabilities.

(All amounts in millions of RMB unless otherwise stated)

A financial liability is derecognized when any of the following criteria is met: (i) the current obligation has been discharged, cancelled or expired, or (ii) the Group enters into an agreement with creditor so as to replace the current financial liabilities in the way of taking new financial liabilities, and the contractual terms of new financial liabilities and current financial liabilities are substantially different. If the terms for the current liabilities have significant modifications, the replacement or adjusted items shall be handled as the derecognition of the original financial liabilities and initial recognition of a new financial liability.

The difference between the carrying amount of the derecognized part of the financial liability and the consideration is recognized in profit or loss.

(6) *Offsetting financial assets and liabilities*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied:

(i) the Group has a legal right to offset the recognized amounts and the legal right is currently enforceable; and

(ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

(7) *Repurchase agreements and agreements to resell*

Financial assets transferred as collateral in connection with standard repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as held-to-maturity investments, available-for-sale financial assets, investment classified as receivables or loans and advances to customers as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note 41.5 "Contingent Liabilities and Commitments — Collateral".

Consideration paid for financial assets held under agreements to resell are recorded as financial assets held under resale agreements. The difference between purchase and sale price is recognized as interest expense or income in the consolidated income statement for that year over the term of the agreements using the effective interest method.

2.9 ***Property and equipment***

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

(All amounts in millions of RMB unless otherwise stated)

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Categries	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	5%	4.75%
Electronic equipment	3 years	5%	31.67%
Motor vehicles	4 years	5%	23.75%
Office equipment and others	5 years	5%	19.00%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. The costs comprise construction cost, installation cost, borrowing costs that are eligible for capitalisation and other costs necessary for preparing the property and equipment for their intended use. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continuing use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income in the consolidated income statement. Property and equipment's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

2.10 ***Land use rights***

Land use rights are classified in other assets and amortized over a straight-line basis over the respective lease periods, which range from 10 to 40 years.

(All amounts in millions of RMB unless otherwise stated)

2.11 ***Investment property***

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditures incurred for the investment property are included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in the consolidated income statement in the period in which they are incurred.

Investment property is subsequently measured at cost. Depreciation is recognized on a straight-line basis based on estimated useful life and net residual rate. The estimated useful life is 20 years and the estimated residual rate is 5% of the investment property.

At the end of the reporting period, the Group views the carrying amounts of its investment properties to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount (the higher of fair value less costs to sell and value in use) of the property is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of a property is estimated to be less than its carrying amount, the carrying amount of the property is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement. The accounting policies of impairment of investment property are included in "Note 2.14 Impairment of non-financial assets".

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement for the current period.

2.12 ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease.

The Group as lessee

When the Group is a lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated income statement on a straight-line

(All amounts in millions of RMB unless otherwise stated)

basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

When the Group is a lessee under finance leases, the leased assets are capitalized initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated income statement. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

2.13 ***Intangible assets***

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

2.14 ***Impairment of non-financial assets***

Property and equipment, investment property, construction in progress and intangible assets with finite useful lives, among others, are tested for impairment if there is any indication that the assets may be impaired as at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds 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. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Non-financial assets that are suffered an impairment, are reviewed for possible reversal of impairment at each reporting date.

(All amounts in millions of RMB unless otherwise stated)

2.15 ***Cash and cash equivalents***

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and short-term debt securities.

2.16 ***Dividend distribution***

Dividend distribution to the Bank's shareholders is recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

2.17 ***Provisions***

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.18 ***Fiduciary activities***

The Group acts as a custodian or a trustee to hold and manage assets for securities investment funds, insurance companies and other institutions. The assets and their repayment obligations related to these activities are not included in the consolidated statement of financial position of the Group.

2.19 ***Contingent liabilities***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognized but disclosed. The Group's contingent liabilities are disclosed in Note 41"Contingent Liabilities and Commitments".

A provision is recognized when it meets the criteria as set forth in Note 2.17 "Provisions".

(All amounts in millions of RMB unless otherwise stated)

2.20 ***Segment analysis***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The relevant committee led by presidents is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

3 **Critical accounting estimates and judgements in applying accounting policies**

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions below may lead to material adjustments to the carrying amounts of assets and liabilities within the next accounting year.

3.1 ***Provision for impairment on loans and advances to customers***

Except for the identified impaired loans that are individually assessed for impairment losses, the Group reviews loan portfolios to assess impairment on a periodic basis. In determining whether provisions of impairment on loans are to be recognized, the Group makes judgements as to whether there is indication of impairment which will have a decrease in the estimated future cash flows from portfolios composed of loans which are found to have no decrease in cash flows individually. Indications of impairment resulting in the decrease in estimated cash flows include deterioration in borrower's repayment abilities to the loan portfolios, or a breach of contract by the borrower of the loan portfolio due to the adverse changes in the borrower's economic position. Based on the historical loss experience from a group of assets having similar credit risk characteristics, the Group makes impairment estimation to the loan portfolios that have indications 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 (Note 20.4).

3.2 ***Fair value of financial instruments***

The fair value of financial instruments that are quoted in an active market is determined by the Group through market inquiry; the fair value of financial instruments that are not quoted in an active market is determined by the Group through valuation technique. Valuation techniques include the use of recent prices of transaction between knowledgeable parties, observable prices of similar financial instruments, discounted cash flows analysis with risk adjusted, as well as pricing models that are

(All amounts in millions of RMB unless otherwise stated)

commonly used in the market. To the extent practical, models for the valuation of derivative and other financial instruments use observable market data, such as interest yield curves and foreign exchange rate. 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.

The Group, through regular review and approval procedures, reviews the assumptions and market expectations adopted by the valuation technique, including the examination of assumptions and pricing factors of models, changes in assumption conditions of models, properties of market parameters, whether the market is active or not, adjustment factors of fair values which are not covered by models, and the consistency of valuation techniques between periods. Valuation techniques are regularly reviewed through validity tests and updated to reflect the market conditions at the balance sheet date where appropriate (Note 44.7).

3.3 ***Classification of held-to-maturity investments***

The Group classifies 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 judgements, and in making these judgements, the Group evaluates its intention and ability to hold such investments to maturity. If the Group changes its intention and ability to hold such investments to maturity, it is required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets (Note 21.2).

3.4 ***Actuarial valuation of early retirement benefits and supplementary retirement benefits liabilities***

The Group has recognized early retirement benefits and supplementary retirement benefits as liabilities (Note 2.7), and performed actuarial valuation of the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits using various assumptions. The assumptions include discount rates, growth rates of expenses, and mortality rates, etc. Any differences between the actual results and assumptions are accounted for in the current period in accordance with relevant accounting policies. The assumptions used are reasonable to the best knowledge of the Group's management, but the actual experience or changes in assumptions will affect the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits (Note 33).

3.5 ***Impairment of non-financial assets***

The Group regularly reviews 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 (Note 26).

(All amounts in millions of RMB unless otherwise stated)

3.6 ***Income taxes***

In the ordinary course of the Group's business, there are certain transactions and activities for which there are uncertainties concerning their ultimate tax treatment. In accordance with the current tax laws and regulations as well as the policies applicable to the Group from competent government authorities in the previous years, the Group makes tax estimates on the implementation of new tax laws and regulations as well as events involving uncertainties in tax treatment. In calculating its income tax liabilities, the Group makes significant judgements. Where the final outcome of these tax matters is different from the amounts initially recorded, such differences will affect the current income tax and deferred income tax provisions in the period during which such a determination is made (Note 12).

3.7 ***Control over structured entities***

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it controls the structured entities. The principle of control includes three factors: (i) power over investees; (ii) exposure or right to the variable returns of investees, and (iii) ability to affect those returns through its power over the investees. If evidence shows that the factors of the control change, the Group shall reassess whether it has control on the investees. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (such as direct investment) that it holds in the structured entities (Note 40). The Group performs reassessment periodically.

(All amounts in millions of RMB unless otherwise stated)

4 Net interest income

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Interest income					
Deposits with central bank	22,524	24,507	23,963	6,211	4,577
Deposits with banks and other financial institutions	47,763	48,873	33,806	9,697	2,933
Placements with banks and other financial institutions	3,809	7,826	9,147	1,901	2,490
Financial assets at fair value through profit or loss	287	197	312	154	57
Financial assets held under resale agreements	20,630	21,815	12,486	5,942	1,433
Loans and advances to customers	99,649	119,396	139,417	32,903	33,550
Including: Corporate loans and advances	46,596	52,383	60,181	14,591	14,849
Personal loans and advances	53,053	67,013	79,236	18,312	18,701
Available-for-sale financial assets	8,552	5,451	5,499	1,412	1,374
Held-to-maturity investments	30,651	26,216	25,399	6,324	6,325
Investment classified as receivables	8,280	27,499	50,532	10,690	19,530
Subtotal	242,145	281,780	300,561	75,234	72,269
Interest expense					
Deposits from banks and other financial institutions	(308)	(499)	(943)	(204)	(1,224)
Placements from banks and other financial institutions	(204)	(195)	(293)	(39)	(459)
Financial assets sold under repurchase agreements	(2,073)	(841)	(2,534)	(698)	(2,704)
Customer deposits	(100,587)	(112,429)	(117,184)	(29,321)	(25,902)
Debt securities issued	—	—	(348)	—	(280)
Subtotal	(103,172)	(113,964)	(121,302)	(30,262)	(30,569)
Net interest income	138,973	167,816	179,259	44,972	41,700
Including:					
Interest income accrued on impaired financial assets	81	204	593	24	68
Included in interest income					
Interest income from listed investments	38,043	33,213	23,805	8,311	7,941
Interest income from unlisted investments	9,727	26,150	57,937	10,269	19,345

(All amounts in millions of RMB unless otherwise stated)

5 Net fee and commission income

	Note	Year ended December 31,			Three months ended March 31,	
		2013	2014	2015	2015	2016
					(unaudited)	
Settlement and clearing fee income	(1)	6,011	5,862	5,525	1,477	1,496
Bank cards and POS fee income		2,496	3,474	4,634	1,077	1,230
Agency service fee income	(2)	1,471	1,511	2,260	597	1,012
Wealth management fee income		921	1,141	2,161	524	816
Custodian business income		239	331	506	65	175
Others		544	793	1,186	279	272
Fee and commission income		11,682	13,112	16,272	4,019	5,001
Fee and commission expense	(3)	(5,717)	(6,633)	(7,600)	(1,835)	(2,038)
Net fee and commission income		5,965	6,479	8,672	2,184	2,963

(1) Settlement and clearing fee income refers to income derived from settlement services provided for institutional and individual customers, mainly includes fee and commission derived from cross-province transactions and foreign exchange services.

(2) Agency fee income mainly refers to fee and commission income from various agency services, including sales of insurance, funds, government bonds underwriting and collection and payment services.

(3) Fee and commission expenses were mainly expenses incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 39.3 (1) for expenses paid by the Group to China Post Group.

6 Net trading gains/(losses)

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Debt securities	(194)	114	214	(111)	298
Derivative financial instruments	(15)	14	61	(28)	263
Others	—	—	—	—	2
Total	(209)	128	275	(139)	563

(All amounts in millions of RMB unless otherwise stated)

7 Net gains/(losses) on investment securities

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Net gains/(losses) from disposal of available-for-sale financial assets	(272)	91	547	16	1,873
Net re-valuation gains/(losses) reclassified from other comprehensive income on disposal	(84)	(1,418)	213	77	80
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	119	25	97	24	23
Net losses from disposal of held-to-maturity investments	(15)	(8)	(8)	—	—
Net gains/(losses) from disposal of investment classified as receivables	—	(15)	97	—	36
Total	(252)	(1,325)	946	117	2,012

8 Other operating income

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Government subsidies	366	307	641	162	239
Leasing income	121	161	154	31	32
Net exchange gains/(losses)	57	62	165	(4)	(216)
Precious metal sales income	—	2	181	62	168
Others	213	245	340	45	53
Total	757	777	1,481	296	276

(All amounts in millions of RMB unless otherwise stated)

9 Operating expenses

		Year ended December 31,			Three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	23,248	28,724	34,172	8,173	8,361
Deposit agency fees	(2)	46,058	50,366	54,397	13,301	14,667
Other general operating and administrative expenses		18,432	19,156	19,392	3,459	4,205
Business taxes and surcharges	(3)	6,240	8,155	7,886	1,923	2,077
Depreciation and amortization		4,980	4,990	4,817	1,208	1,122
Auditor's remuneration		17	19	21	5	5
Others		2,491	2,716	2,925	441	666
Total		101,466	114,126	123,610	28,510	31,103

(All amounts in millions of RMB unless otherwise stated)

(1) ***Staff costs (including emoluments of directors, supervisors and senior management)***

	Year ended December 31,			Three months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
				(unaudited)	
Short-term employee benefits					
Wages and salaries, bonuses, allowances and subsidies	17,850	22,033	25,726	6,353	6,064
Staff welfare	1,013	1,165	1,257	233	219
Social security contributions	649	883	1,184	281	358
Including: Medical insurance	571	783	1,053	251	326
Work injury insurance	37	47	61	14	14
Maternity insurance	41	53	70	16	18
Housing funds	1,135	1,438	1,881	415	551
Labour union funds and employee education funds	424	651	796	133	177
Subtotal	21,071	26,170	30,844	7,415	7,369
Defined contribution benefits					
Basic pensions	1,545	1,980	2,594	562	762
Unemployment insurance	104	132	148	36	40
Annuity scheme	357	427	575	159	185
Subtotal	2,006	2,539	3,317	757	987
Supplementary retirement benefits (Note 33(1))	171	15	11	1	5
Total	23,248	28,724	34,172	8,173	8,361

(2) Deposit agency fees are payments by the Group to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Group (Note 39.3 (1)).

(3) Business tax is calculated at 5% of taxable income.

City construction and maintenance tax is calculated at 1%-7% of business tax.

Educational surcharges are calculated at 3%-5% of business tax.

(All amounts in millions of RMB unless otherwise stated)

10. **Emoluments of directors and supervisors**

(1) ***Details of the directors and supervisors' emoluments are as follows***

		Year ended December 31, 2013				
Name	Note	Fees	Remuneration paid	Contribution to pension schemes	Benefits in kind	Total
		RMB thousand	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Chairman						
Li Guohua (李國華)	(i)	—	—	—	—	—
Executive directors						
Lyu Jiajin (呂家進)		—	760	95	118	973
Zhang Xuewen (張學文)		—	427	37	82	546
Li Cailin (李財林)		—	667	102	106	875
Non-executive directors						
Ke Yan (柯岩)	(ii)	—	—	—	—	—
Yang Songtang (楊松堂)		—	224	34	52	310
Zhang Lixian (張立憲)		—	224	34	52	310
Tang Jian (唐健)		—	224	37	54	315
Wei Shengguang (韋勝光)	(ii)	—	—	—	—	—
Independent non-executive directors						
Ma Weihua (馬蔚華)	(iii)	—	—	—	—	—
Bi Zhonghua (畢仲華)	(iii)	—	—	—	—	—
Supervisors						
Chen Yuejun (陳躍軍)		—	402	34	86	522
Ma Jianzhong (馬建中)		—	—	—	—	—
Guo Tianyong (郭田勇)	(iv)	—	—	—	—	—
Li Yue (李躍)	(v)	—	—	—	—	—
Total		—	2,928	373	550	3,851

(i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.

(ii) Ms. Ke Yan and Mr. Wei Shengguang do not receive emolument from the Bank.

(iii) Mr. Ma Weihua and Ms. Bi Zhonghua were elected independent non-executive directors in December 2013.

(All amounts in millions of RMB unless otherwise stated)

(iv) Mr. Guo Tianyong was elected external supervisor in December 2013.

(v) The emolument for Mr. Li Yue, employee representative on the Board of Supervisors, represents the emolument for his service on the Board of Supervisors and the compensation due to him as an employee of the Bank is not included here.

		Year ended December 31, 2014				
Name	**Note**	**Fees**	**Remuneration paid**	**Contribution to pension schemes**	**Benefits in kind**	**Total**
		RMB thousand	**RMB thousand**	**RMB thousand**	**RMB thousand**	**RMB thousand**
Chairman						
Li Guohua (李國華)	(i)	—	—	—	—	—
Executive directors						
Lyu Jiajin (呂家進)		—	839	73	114	1,026
Zhang Xuewen (張學文)		—	733	70	113	916
Non-executive directors						
Yang Songtang (楊松堂)		—	804	40	101	945
Zhang Lixian (張立憲)		—	808	40	101	949
Tang Jian (唐健)		—	856	40	101	997
Independent non-executive directors						
Ma Weihua (馬蔚華)		200	—	—	—	200
Bi Zhonghua (畢仲華)		200	—	—	—	200
Supervisors						
Chen Yuejun (陳躍軍)		—	701	71	118	890
Guo Tianyong (郭田勇)		200	—	—	—	200
Li Yue (李躍)	(ii)	28	—	—	—	28
Executive directors resigned						
Li Cailin (李財林)	(iii)	—	610	66	68	744
Non-executive directors resigned						
Ke Yan (柯岩)	(iv)	—	—	—	—	—
Wei Shengguang (韋勝光)	(iv)	—	—	—	—	—
Supervisors resigned						
Ma Jianzhong (馬建中)	(v)	283	—	—	—	283
Total		911	5,351	400	716	7,378

(All amounts in millions of RMB unless otherwise stated)

(i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.

(ii) The emolument for Mr. Li Yue, employee representative on the Board of Supervisors, represents the emolument for his service on the Board of Supervisors, and the compensation due to him as an employee of the Bank is not included here.

(iii) Mr. Li Cailin ceased to be executive director effective August 2014.

(iv) Ms. Ke Yan and Mr. Wei Shengguang ceased to be non-executive director effective May 2014, and do not receive emolument from the Bank.

(v) Mr. Ma Jianzhong ceased to be supervisor director effective May 2014.

		Year ended December 31, 2015				
Name	**Note**	**Fees**	**Remuneration Paid**	**Contribution to pension schemes**	**Benefits in kind**	**Total**
		RMB thousand	**RMB thousand**	**RMB thousand**	**RMB thousand**	**RMB thousand**
Chairman						
Li Guohua (李國華)	(i)	—	—	—	—	—
Executive directors						
Lyu Jiajin (吕家進)		—	955	83	123	1,161
Zhang Xuewen (張學文)		—	942	83	114	1,139
Non-executive directors						
Yang Songtang (楊松堂)		—	811	44	114	969
Tang Jian (唐健)		—	823	44	117	984
Lai Weiwen (賴偉文)	(ii)	—	75	8	17	100
Independent non-executive directors						
Ma Weihua (馬蔚華)		665	—	—	—	665
Bi Zhonghua (畢仲華)		390	—	—	—	390
Supervisors						
Chen Yuejun (陳躍軍)		—	939	84	113	1,136
Guo Tianyong (郭田勇)		296	—	—	—	296
Li Yue (李躍)	(iii)	28	—	—	—	28
Non-executive directors resigned						
Zhang Lixian (張立憲)	(iv)	—	658	29	69	756
Total		1,379	5,203	375	667	7,624

(All amounts in millions of RMB unless otherwise stated)

(i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.

(ii) Mr. Lai Weiwen was elected non-executive director effective in November 2015.

(iii) The emolument for Mr. Li Yue, employee representative on the Board of Supervisors, represents the emolument for his service on the Board of Supervisors, and the compensation due to him as an employee of the Bank is not included here.

(iv) Mr. Zhang Lixian ceased to be non-executive director effective September 2015.

		Three months ended March 31, 2015 (unaudited)				
Name	**Note**	**Fees**	**Remuneration paid**	**Contribution to pension schemes**	**Benefits in kind**	**Total**
		RMB thousand	**RMB thousand**	**RMB thousand**	**RMB thousand**	**RMB thousand**
Chairman						
Li Guohua (李國華)	(i)	—	—	—	—	—
Executive directors						
Lyu Jiajin (呂家進)		—	554	10	29	593
Zhang Xuewen (張學文)		—	542	10	28	580
Non-executive directors						
Yang Songtang (楊松堂)		—	408	10	26	444
Zhang Lixian (張立憲)		—	409	10	26	445
Tang Jian (唐健)		—	417	10	26	453
Independent non-executive directors						
Ma Weihua (馬蔚華)		140	—	—	—	140
Bi Zhonghua (畢仲華)		90	—	—	—	90
Supervisors						
Chen Yuejun (陳躍軍)		—	539	10	28	577
Guo Tianyong (郭田勇)		73	—	—	—	73
Li Yue (李躍)	(ii)	—	—	—	—	—
Total		303	2,869	60	163	3,395

(i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.

(ii) The emolument for Mr. Li Yue, employee representative on the Board of Supervisors, represents the emolument for his service on the Board of Supervisors, and the compensation due to him as an employee of the Bank is not included here.

(All amounts in millions of RMB unless otherwise stated)

		Three months ended March 31, 2016				
Name	Note	Fees	Remuneration paid	Contribution to pension schemes	Benefits in kind	Total
		RMB thousand	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Chairman						
Li Guohua (李國華)	(i)	—	—	—	—	—
Executive directors						
Lyu Jiajin (呂家進)		—	581	12	32	625
Zhang Xuewen (張學文)		—	569	12	29	610
Non-executive directors						
Yang Songtang (楊松堂)		—	411	12	31	454
Tang Jian (唐健)		—	415	12	33	460
Lai Weiwen (賴偉文)		—	151	12	26	189
Independent non-executive directors						
Ma Weihua (馬蔚華)		130	—	—	—	130
Bi Zhonghua (畢仲華)		85	—	—	—	85
Supervisors						
Chen Yuejun(陳躍軍)		—	575	12	29	616
Guo Tianyong (郭田勇)		64	—	—	—	64
Dang Junzhang (党均章)	(ii)	—	—	—	—	—
Li Yue (李躍)	(iii)	—	—	—	—	—
Song Changlin (宋長林)	(ii)	—	—	—	—	—
Total		279	2,702	72	180	3,233

(i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.

(ii) Mr. Dang Junzhang and Mr. Song Changlin were elected employee representative on the Board of Supervisors in March 2016, and the compensation due to them as employees of the Bank are not included here.

(iii) The emolument for Mr. Li Yue, employee representative on the Board of Supervisors, represents the emolument for his service on the Board of Supervisors, and the compensation due to him as an employee of the Bank is not included here.

(All amounts in millions of RMB unless otherwise stated)

(2) *Five highest paid individuals*

For the year ended December 31, 2013, the five highest-paid individuals of the Group included one member of the Board of Directors and no supervisors. For the years ended December 31, 2014 and 2015 and for the three months ended March 31, 2015 and 2016, the five highest-paid individuals did not include any member of the Board of Directors or Board of Supervisors, whose emoluments are presented under Note 10.(1).

The emoluments for the rest of the five highest paid individuals are as follows:

	Year ended December 31,			Three months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB thousand	**RMB thousand**	**RMB thousand**	**RMB thousand (unaudited)**	**RMB thousand**
Remunerations paid	3,704	5,393	6,859	2,752	3,250
Contribution to pension schemes	216	178	203	385	216
Benefits in kind	211	455	280	143	166

The number of these individuals, other than directors, whose emoluments fell within the following bands, is as follows:

	Year ended December 31,			Three months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
	Headcount	**Headcount**	**Headcount**	**Headcount (unaudited)**	**Headcount**
RMB500,001-RMB1,000,000	1	—	—	5	5
RMB1,000,001-RMB1,500,000	3	5	3	—	—
RMB1,500,001-RMB2,000,000	—	—	2	—	—

(3) *Benefits and interests of directors and connected entities*

(i) The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in general commercial terms in the ordinary course of business. For the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2016, the balance of loans and advances from the Group to Directors, Supervisors or certain controlled body

(All amounts in millions of RMB unless otherwise stated)

corporates and connected entities of the Directors or Supervisors was not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

(ii) For the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2016, no emolument was paid by the Group to any of the Directors, Supervisors, Senior Managements or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme, other retirement benefits for Directors or Supervisors were not significant, and there were no consideration provided to third parties for making available directors' or supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2016.

11 **Impairment losses on assets**

	Year ended December 31,			Three months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
				(unaudited)	
Loans and advances to customers	8,066	17,921	23,186	4,473	4,302
Placements with banks and other financial institutions	578	160	549	57	(1,518)
Investment classified as receivables	—	2,272	1,668	263	(695)
Others	30	59	232	13	39
Total	8,674	20,412	25,635	4,806	2,128

In the first quarter of 2016, the Bank reviewed and made the best estimates of the risk profiles of placements with banks and other financial institutions based on historical default data and a write-back is made thereof.

(All amounts in millions of RMB unless otherwise stated)

12 **Income tax expenses**

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Current income tax	6,380	10,884	9,611	3,463	1,605
Deferred income tax (Note 24)	(954)	(4,114)	(3,080)	(605)	191
Total	5,426	6,770	6,531	2,858	1,796

Corporate income tax is calculated as 25% of estimated taxable profit. Pre-tax deductible items of corporate income tax are governed by the relevant regulations of the PRC.

Reconciliation of income tax expenses and profits presented in the consolidated income statement are as follows:

		Year ended December 31,			Three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
Profit before income tax		35,094	39,337	41,388	14,114	14,283
Income tax calculated at the statutory tax rate of 25%		8,773	9,834	10,347	3,528	3,571
Tax effect of items not deductible for tax purpose	(1)	321	197	184	105	5
Tax effect of income not taxable for tax purpose	(2)	(3,668)	(3,261)	(4,000)	(775)	(1,780)
Income tax expenses		5,426	6,770	6,531	2,858	1,796

(1) Non-deductible expenses primarily include losses resulting from loans write-off, staff costs and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

(2) Non-taxable income mainly included interest income from government bonds, local government bonds, railway construction bonds, long term special financial bonds and micro loans to farmers, which is not subject to income tax in accordance with the relevant PRC tax regulations.

(All amounts in millions of RMB unless otherwise stated)

13 Basic and diluted earnings per share

(1) Basic earnings per share are calculated by dividing the profit for the year/period attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year/period.

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Net profit attributable to shareholders of the Bank (in RMB million)	29,668	32,567	34,859	11,256	12,492
Weighted average number of ordinary shares in issue (in million)	45,071	47,137	57,318	57,000	68,604
Basic earnings per share (in RMB Yuan)	0.66	0.69	0.61	0.20	0.18

(2) ***Diluted earnings per share***

For the years ended December 31, 2013, 2014 and 2015, and the three months ended March 31, 2015 and 2016, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

14 Cash and deposits with central bank

The Group

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Cash on hand		45,462	47,848	46,188	46,331
Statutory reserve with central bank	(1)	1,043,656	1,162,962	1,066,727	1,104,688
Surplus reserve with central bank	(2)	12,152	54,266	17,294	177,959
Special deposits with central bank	(3)	124,075	124,075	—	—
Fiscal deposits with central bank		363	608	1,022	838
Total		1,225,708	1,389,759	1,131,231	1,329,816

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Note	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at March 31, 2016
Cash on hand		45,462	47,848	46,188	46,258
Statutory reserve with central bank	(1)	1,043,656	1,162,962	1,066,727	1,104,688
Surplus reserve with central bank	(2)	12,152	54,266	17,294	177,959
Special deposits with central bank	(3)	124,075	124,075	—	—
Fiscal deposits with central bank		363	608	1,022	838
Total		1,225,708	1,389,759	1,131,231	1,329,743

(1) Statutory reserve with central bank is the general reserve deposited with the People's Bank of China (hereinafter referred to as the "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at December 31, 2013, 2014 and 2015, and March 31, 2016, the ratio for RMB deposits statutory reserve was 20%, 20%, 17% and 16.5% respectively, whereas the ratio for foreign currency deposits remain 5%.

(2) Surplus reserve with central bank represents deposits placed with the central bank for settlement and clearing of interbank transactions.

(3) Special deposits with central bank were the amounts placed with the central bank in 2010 which could not be withdrawn at discretion. These special deposits have a term of 5.5 years, bearing interest at the PBOC benchmark rate for its then five-year time deposits and interest is paid on a quarterly basis. The interest rate applicable to these special deposits was 4.75% per annum. The special deposits were withdrawn upon maturity in 2015.

15 Deposits with banks and other financial institutions

The Group

	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at March 31, 2016
Deposits with:				
Domestic banks	1,043,415	729,215	320,445	187,174
Other domestic financial institutions	2	3	3	—
Overseas banks	1,187	999	3,689	7,608
Total	1,044,604	730,217	324,137	194,782

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Deposits with:				
Domestic banks	1,043,415	729,215	319,825	186,934
Domestic financial institutions	2	3	3	—
Overseas banks	1,187	999	3,689	7,608
Total	1,044,604	730,217	323,517	194,542

16 **Placements with banks and other financial institutions**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Placements with:				
Domestic banks	1,149	5,153	37,459	88,477
Other domestic financial institutions	93,266	109,694	164,668	168,157
Overseas banks	—	—	—	1,211
Gross amount	94,415	114,847	202,127	257,845
Allowance for impairment losses (Note 26)	(933)	(1,093)	(1,642)	(124)
Carrying amounts	93,482	113,754	200,485	257,721

(All amounts in millions of RMB unless otherwise stated)

17 **Financial assets at fair value through profit or loss**

The Group and the Bank

	Note	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at March 31, 2016
Financial assets held for trading					
Debt securities:					
- Listed in Hong Kong		—	18	149	1,250
- Listed outside Hong Kong		4,482	8,406	6,944	14,173
- Unlisted		—	—	33	52
Subtotal		4,482	8,424	7,126	15,475
Certificates of deposits					
- Listed outside Hong Kong		—	1,474	16,454	50,793
- Unlisted		—	—	—	3,037
Subtotal		—	1,474	16,454	53,830
Subtotal	(1)	4,482	9,898	23,580	69,305
Financial assets designated at fair value through profit or loss	(2)				
Asset management plans					
- Unlisted		—	—	4,139	5,968
Total		4,482	9,898	27,719	75,273

The debt securities above are mainly traded in the China Domestic Interbank Bond Market.

(All amounts in millions of RMB unless otherwise stated)

Analyzed by types of issuers

The Group and the Bank

	Note	As at December 31,			As at March 31,
		2013	2014	2015	2016
Financial assets held for trading					
Debt securities:					
Issuers from Hong Kong					
- Corporates		—	—	—	16
Issuers from Mainland China					
- Government		703	625	120	975
- Financial institutions		2,757	1,793	1,949	6,581
- Corporates		1,022	6,006	5,057	7,851
Subtotal		4,482	8,424	7,126	15,407
Issuers from other countries and regions					
- Financial institutions		—	—	—	52
Total of Debt securities		4,482	8,424	7,126	15,475
Certificates of deposits					
- Financial institutions from Mainland China		—	1,474	16,454	53,830
Subtotal	(1)	4,482	9,898	23,580	69,305
Financial assets designated at fair value through profit or loss	(2)				
Assets management plans					
- Financial institutions from Mainland China		—	—	4,139	5,968
Total		4,482	9,898	27,719	75,273

(1) There are no significant restraints on the ability of the Group and the Bank to convert its financial assets hold for trading into cash.

(2) As at December 31, 2015 and March 31, 2016, the fair value of the Group's and the Bank's financial assets designated as at fair value through profit or loss has no significant changes due to changes arising from their credit risk exposures.

(All amounts in millions of RMB unless otherwise stated)

18 Derivative financial assets and liabilities

The Group primarily enters into derivative contracts of foreign exchange rate and interest rate, which are related to trading, asset and liability management, and customer driven transactions.

The contractual/notional amounts and fair values of the derivative financial instruments held by the Group as of balance sheet dates are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

The Group and the Bank

By types of contracts

	As at December 31, 2013		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	68,178	260	(272)
Interest rate contracts	2,060	29	(32)
Total	70,238	289	(304)

	As at December 31, 2014		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	119,286	404	(398)
Interest rate contracts	20,131	22	(22)
Total	139,417	426	(420)

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2015		
	Contractual/ Notional amounts	Fair Value Assets	Fair Value Liabilities
Exchange rate contracts	156,699	1,044	(1,009)
Interest rate contracts	52,374	29	(30)
Total	209,073	1,073	(1,039)

	As at March 31, 2016		
	Contractual/ Notional amounts	Fair Value Assets	Fair Value Liabilities
Exchange rate contracts	262,441	1,349	(1,056)
Interest rate contracts	62,086	29	(38)
Total	324,527	1,378	(1,094)

As at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group did not have any netting arrangements or similar agreements with counterparties.

Analyzed by credit risk weighted amount for counterparty

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Credit risk weighted amount for counterparty				
Exchange rate contracts	237	285	525	720
Interest rate contracts	6	13	14	18
Subtotal	243	298	539	738
Credit value adjustment	105	150	265	311
Total	348	448	804	1,049

The contractual/notional amounts of derivatives only represent the volume of unsettled transactions as at the end of the reporting period, rather than their risk adjusted amounts. The Group adopted *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* and other related regulations on January 1, 2013. According to CBRC rules and requirements, the counterparty's credit risk weighted assets now include adjustments to credit valuations, which are calculated based on the positions of counterparties and the specifics of the remaining maturities.

(All amounts in millions of RMB unless otherwise stated)

19 **Financial assets held under resale agreements**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
By collaterals:				
Bills	364,170	426,720	32,796	25,710
Debt securities	16,892	124,678	113,072	275,244
Loans and others	6,125	6,125	3,000	3,000
Total	387,187	557,523	148,868	303,954

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 41.5 Contingent liabilities and commitments — Collateral". As at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group did not have any netting arrangements or similar agreements with counterparties.

(All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers

20.1 *Loans and advances by types*

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Corporate loans and advances				
- Loans	708,818	804,316	980,980	1,028,404
- Discounted bills	50,609	108,366	268,303	339,267
Subtotal	759,427	912,682	1,249,283	1,367,671
Personal loans and advances				
Consumer loans	352,899	510,915	736,939	810,308
- Residential mortgage loans	297,846	402,668	577,256	640,359
- Other consumer loans	55,053	108,247	159,683	169,949
Personal business loans	237,486	286,971	304,930	303,460
Micro loans	123,719	134,477	136,207	138,876
Credit card overdrafts and others	19,074	30,703	44,494	45,439
Subtotal	733,178	963,066	1,222,570	1,298,083
Gross loans and advances	1,492,605	1,875,748	2,471,853	2,665,754
Less: Allowance for impairment losses				
- Individual assessment	—	(578)	(1,496)	(1,884)
- Collective assessment	(29,345)	(43,103)	(57,762)	(59,759)
Net loans and advances	1,463,260	1,832,067	2,412,595	2,604,111

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Corporate loans and advances				
- Loans	708,818	804,291	980,980	1,028,404
- Discounted bills	50,609	108,366	268,303	339,267
Subtotal	759,427	912,657	1,249,283	1,367,671
Personal loans and advances				
Consumer loans	352,899	510,574	736,510	809,485
- Residential mortgage loans	297,846	402,327	576,916	640,018
- Other consumer loans	55,053	108,247	159,594	169,467
Personal business loans	237,486	286,971	304,930	303,460
Micro loans	123,719	134,477	136,207	138,876
Credit card overdrafts and others	19,074	30,703	44,494	45,439
Subtotal	733,178	962,725	1,222,141	1,297,260
Gross loans and advances	1,492,605	1,875,382	2,471,424	2,664,931
Less: Allowance for impairment losses				
- Individual assessment	—	(578)	(1,496)	(1,884)
- Collective assessment	(29,345)	(43,035)	(57,693)	(59,684)
Net loans and advances	1,463,260	1,831,769	2,412,235	2,603,363

20.2 Detail information regarding loans and advances to customers by geographical distribution, industries, types of collateral and overdue situation are set out in Note 44.3(5) and Note 44.3(6).

(All amounts in millions of RMB unless otherwise stated)

20.3 ***Loans and advances by assessment results***

The Group

	Loans and advances not identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed individually	Total	Those identified as impaired as a percentage of total loans and advances
As at December 31, 2013					
Gross loans and advances ..	1,484,942	7,663	—	1,492,605	0.51%
Allowances for impairment losses	(22,948)	(6,397)	—	(29,345)	
Loans and advances to customers, net	1,461,994	1,266	—	1,463,260	
As at December 31, 2014					
Gross loans and advances ..	1,863,751	11,178	819	1,875,748	0.64%
Allowances for impairment losses	(34,244)	(8,859)	(578)	(43,681)	
Loans and advances to customers, net	1,829,507	2,319	241	1,832,067	
As at December 31, 2015					
Gross loans and advances ..	2,451,978	17,815	2,060	2,471,853	0.80%
Allowances for impairment losses	(43,927)	(13,835)	(1,496)	(59,258)	
Loans and advances to customers, net	2,408,051	3,980	564	2,412,595	
As at March 31, 2016					
Gross loans and advances ..	2,644,254	19,080	2,420	2,665,754	0.81%
Allowances for impairment losses	(45,210)	(14,549)	(1,884)	(61,643)	
Loans and advances to customers, net	2,599,044	4,531	536	2,604,111	

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Loans and advances not identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed individually	Total	Those identified as impaired as a percentage of total loans and advances
As at December 31, 2013					
Gross loans and advances ..	1,484,942	7,663	—	1,492,605	0.51%
Allowances for impairment losses	(22,948)	(6,397)	—	(29,345)	
Loans and advances to customers, net	1,461,994	1,266	—	1,463,260	
As at December 31, 2014					
Gross loans and advances ..	1,863,385	11,178	819	1,875,382	0.64%
Allowances for impairment losses	(34,176)	(8,859)	(578)	(43,613)	
Loans and advances to customers, net	1,829,209	2,319	241	1,831,769	
As at December 31, 2015					
Gross loans and advances ..	2,451,549	17,815	2,060	2,471,424	0.80%
Allowances for impairment losses	(43,858)	(13,835)	(1,496)	(59,189)	
Loans and advances to customers, net	2,407,691	3,980	564	2,412,235	
As at March 31, 2016					
Gross loans and advances ..	2,643,431	19,080	2,420	2,664,931	0.81%
Allowances for impairment losses	(45,135)	(14,549)	(1,884)	(61,568)	
Loans and advances to customers, net	2,598,296	4,531	536	2,603,363	

(All amounts in millions of RMB unless otherwise stated)

20.4 ***Movements of allowance for impairment losses by assessment results***

The Group

		Identified impaired loans and advances		
	Loans and advances for which allowances are collectively assessed	For which allowances are collectively assessed	For which allowances are individually assessed	Total
As at January 1, 2013	19,398	3,600	—	22,998
Net provision in current year	3,550	4,516	—	8,066
Write-off and transfer out	—	(1,661)	—	(1,661)
Recovery of loans and advances written off in previous years	—	23	—	23
Unwinding of discount on allowance	—	(81)	—	(81)
As at December 31, 2013	22,948	6,397	—	29,345

		Identified impaired loans and advances		
	Loans and advances for which allowances are collectively assessed	For which allowances are collectively assessed	For which allowances are individually assessed	Total
As at January 1, 2014	22,948	6,397	—	29,345
Net provision in current year	11,296	6,029	596	17,921
Write-off and transfer out	—	(3,609)	—	(3,609)
Recovery of loans and advances written off in previous years	—	228	—	228
Unwinding of discount on allowance	—	(186)	(18)	(204)
As at December 31, 2014	34,244	8,859	578	43,681

(All amounts in millions of RMB unless otherwise stated)

The Group

	Loans and advances for which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are individually assessed	Total
As at January 1, 2015	34,244	8,859	578	43,681
Net provision in current year	9,683	12,085	1,418	23,186
Write-off and transfer out	—	(7,114)	(467)	(7,581)
Recovery of loans and advances written off in previous years	—	565	—	565
Unwinding of discount on allowance	—	(560)	(33)	(593)
As at December 31, 2015	43,927	13,835	1,496	59,258

	Loans and advances for which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are individually assessed	Total
As at January 1, 2016	43,927	13,835	1,496	59,258
Net provision in current period	1,283	2,635	384	4,302
Write-off and transfer out	—	(2,172)	—	(2,172)
Recovery of loans and advances written off in previous years	—	309	14	323
Unwinding of discount on allowance	—	(58)	(10)	(68)
As at March 31, 2016	45,210	14,549	1,884	61,643

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Loans and advances for which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are individually assessed	Total
As at January 1, 2013	19,398	3,600	—	22,998
Net provision in current year	3,550	4,516	—	8,066
Write-off and transfer out	—	(1,661)	—	(1,661)
Recovery of loans and advances written off in previous years	—	23	—	23
Unwinding of discount on allowance	—	(81)	—	(81)
As at December 31, 2013	22,948	6,397	—	29,345

	Loans and advances for which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are individually assessed	Total
As at January 1, 2014	22,948	6,397	—	29,345
Net provision in current year	11,228	6,029	596	17,853
Write-off and transfer out	—	(3,609)	—	(3,609)
Recovery of loans and advances written off in previous years	—	228	—	228
Unwinding of discount on allowance	—	(186)	(18)	(204)
As at December 31, 2014	34,176	8,859	578	43,613

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Loans and advances for which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are individually assessed	Total
As at January 1, 2015	34,176	8,859	578	43,613
Net provision in current year	9,682	12,085	1,418	23,185
Write-off and transfer out	—	(7,114)	(467)	(7,581)
Recovery of loans and advances written off in previous years	—	565	—	565
Unwinding of discount on allowance	—	(560)	(33)	(593)
As at December 31, 2015	43,858	13,835	1,496	59,189

	Loans and advances for which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are collectively assessed	Identified impaired loans and advances: For which allowances are individually assessed	Total
As at January 1, 2016	43,858	13,835	1,496	59,189
Net provision in current period	1,277	2,635	384	4,296
Write-off and transfer out	—	(2,172)	—	(2,172)
Recovery of loans and advances written off in previous years	—	309	14	323
Unwinding of discount on allowance	—	(58)	(10)	(68)
As at March 31, 2016	45,135	14,549	1,884	61,568

(All amounts in millions of RMB unless otherwise stated)

20.5 ***Movement of allowance for impairment losses by borrower types***

The Group

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2013	11,667	11,331	22,998
Net provision in current year	1,698	6,368	8,066
Write-off and transfer out	—	(1,661)	(1,661)
Recovery of loans and advances written off in previous years	—	23	23
Unwinding of discount on allowance	(12)	(69)	(81)
As at December 31, 2013	13,353	15,992	29,345

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2014	13,353	15,992	29,345
Net provision in current year	7,860	10,061	17,921
Write-off and transfer out	(218)	(3,391)	(3,609)
Recovery of loans and advances written off in previous years	—	228	228
Unwinding of discount on allowance	(53)	(151)	(204)
As at December 31, 2014	20,942	22,739	43,681

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2015	20,942	22,739	43,681
Net provision in current year	10,493	12,693	23,186
Write-off and transfer out	(2,489)	(5,092)	(7,581)
Recovery of loans and advances written off in previous years	53	512	565
Unwinding of discount on allowance	(356)	(237)	(593)
As at December 31, 2015	28,643	30,615	59,258

(All amounts in millions of RMB unless otherwise stated)

The Group

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2016	28,643	30,615	59,258
Net provision in current period	1,780	2,522	4,302
Write-off and transfer out	(514)	(1,658)	(2,172)
Recovery of loans and advances written off in previous years	77	246	323
Unwinding of discount on allowance	(39)	(29)	(68)
As at March 31, 2016	29,947	31,696	61,643

The Bank

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2013	11,667	11,331	22,998
Net provision in current year	1,698	6,368	8,066
Write-off and transfer out	—	(1,661)	(1,661)
Recovery of loans and advances written off in previous years	—	23	23
Unwinding of discount on allowance	(12)	(69)	(81)
As at December 31, 2013	13,353	15,992	29,345

The Bank

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2014	13,353	15,992	29,345
Net provision in current year	7,860	9,993	17,853
Write-off and transfer out	(218)	(3,391)	(3,609)
Recovery of loans and advances written off in previous years	—	228	228
Unwinding of discount on allowance	(53)	(151)	(204)
As at December 31, 2014	20,942	22,671	43,613

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2015	20,942	22,671	43,613
Net provision in current year	10,493	12,692	23,185
Write-off and transfer out	(2,489)	(5,092)	(7,581)
Recovery of loans and advances written off in previous years	53	512	565
Unwinding of discount on allowance	(356)	(237)	(593)
As at December 31, 2015	28,643	30,546	59,189

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2016	28,643	30,546	59,189
Net provision in current period	1,780	2,516	4,296
Write-off and transfer out	(514)	(1,658)	(2,172)
Recovery of loans and advances written off in previous years	77	246	323
Unwinding of discount on allowance	(39)	(29)	(68)
As at March 31, 2016	29,947	31,621	61,568

(All amounts in millions of RMB unless otherwise stated)

21 Investment instruments

21.1 *Available-for-sale financial assets*

The Group

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Debt securities					
-Listed in Hong Kong		269	331	338	1,583
-Listed outside Hong Kong		130,332	122,381	103,238	119,800
-Unlisted		2,766	123	165	130
Subtotal		133,367	122,835	103,741	121,513
Asset-backed securities					
-Listed outside Hong Kong		978	4,553	23,280	23,526
-Unlisted		—	8,986	—	—
Subtotal		978	13,539	23,280	23,526
Equity instruments	(i)				
-Unlisted		2,293	1,957	263,662	308,483
Total		136,638	138,331	390,683	453,522

The above debt instruments listed outside Hong Kong are mainly traded on the China Domestic Interbank Bond Market.

(i) Equity instruments mainly include money market funds, asset management plans and wealth management products.

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
-Listed in Hong Kong	269	331	338	1,583
-Listed outside Hong Kong	130,332	122,381	103,238	119,800
-Unlisted	2,766	123	165	130
Subtotal	133,367	122,835	103,741	121,513
Asset-backed securities				
-Listed outside Hong Kong	978	4,553	23,280	23,526
-Unlisted	—	8,986	—	—
Subtotal	978	13,539	23,280	23,526
Equity instruments				
-Unlisted	2,293	1,957	263,562	308,483
Total	136,638	138,331	390,583	453,522

(All amounts in millions of RMB unless otherwise stated)

Analyzed by types of issuers

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
Issuers from Hong Kong				
-Financial institutions	—	—	—	90
Issuers from Mainland China				
-Government	70,253	54,053	36,901	42,645
-Public institutions and quasi-government	153	159	—	—
-Financial institutions	53,887	57,550	55,186	67,400
-Corporates	9,074	11,073	11,654	11,058
Subtotal	133,367	122,835	103,741	121,103
Issuers from other countries and regions				
-Financial institutions	—	—	—	320
Subtotal	133,367	122,835	103,741	121,513
Asset-backed securities				
-Financial institutions from Mainland China	978	13,539	23,280	23,526
Equity instruments				
-Financial institutions from Mainland China	2,293	1,957	263,662	308,483
Total	136,638	138,331	390,683	453,522

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
Issuers from Hong Kong				
-Financial institutions	—	—	—	90
Issuers from Mainland China				
-Government	70,253	54,053	36,901	42,645
-Public institutions and quasi-government	153	159	—	—
-Financial institutions	53,887	57,550	55,186	67,400
-Corporates	9,074	11,073	11,654	11,058
Subtotal	133,367	122,835	103,741	121,103
Issuers from other countries and regions				
-Financial institutions	—	—	—	320
Subtotal	133,367	122,835	103,741	121,513
Asset-backed securities				
-Financial institutions from Mainland China	978	13,539	23,280	23,526
Equity instruments				
-Financial institutions from Mainland China	2,293	1,957	263,562	308,483
Total	136,638	138,331	390,583	453,522

Movement of available-for-sale financial assets:

The Group and the Bank

	January 1, 2013	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	Reclassified to held-to-maturity investments	December 31, 2013
Amortized cost	219,352	33,799	(48,341)	—	—	(64,151)	140,659
Fair value	2,061	—	—	84	(4,619)	(1,547)	(4,021)

(All amounts in millions of RMB unless otherwise stated)

The Group and the Bank

	January 1, 2014	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	Reclassified to held-to-maturity investments	December 31, 2014
Amortized cost...	140,659	117,055	(121,113)	—	—	—	136,601
Fair value	(4,021)	—	—	1,418	4,333	—	1,730

The Group

	January 1, 2015	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	Reclassified to held-to-maturity investments	December 31, 2015
Amortized cost...	136,601	441,544	(192,805)	—	—	—	385,340
Fair value	1,730	—	—	(213)	3,826	—	5,343

The Group

	January 1, 2016	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	Reclassified to held-to-maturity investments	March 31, 2016
Amortized cost...	385,340	351,064	(287,563)	—	—	—	448,841
Fair value	5,343	—	—	(80)	(582)	—	4,681

The Bank

	January 1, 2015	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	Reclassified to held-to-maturity investments	December 31, 2015
Amortized cost...	136,601	441,444	(192,805)	—	—	—	385,240
Fair value	1,730	—	—	(213)	3,826	—	5,343

(All amounts in millions of RMB unless otherwise stated)

The Bank

	January 1, 2016	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	Reclassified to held-to-maturity investments	March 31, 2016
Amortized cost...	385,240	351,064	(287,463)	—	—	—	448,841
Fair value	5,343	—	—	(80)	(582)	—	4,681

In 2013, as the intention of holding changed, the Bank decided to reclassify bonds with a face value of RMB64,313 million from available-for-sale financial assets to held-to-maturity investments. The effective weighted average interest rate was 3.77% at the time of the reclassification, the undiscounted cash flows that the Bank expected to recover from the bonds was RMB106,800 million. Up to the reclassification date, the fair value gain on the bonds recognized in other comprehensive income due to changes in fair values was RMB1,547 million. As at December 31, 2013, 2014 and 2015, and March 31, 2016, the face values of such bonds were RMB64,313 million, RMB63,893 million, RMB63,893 million and RMB63,893 million, the carrying values of such bonds were RMB65,716 million, RMB65,225 million, RMB65,148 million and RMB65,129 million, and fair values of such bonds were RMB59,058 million, RMB65,098 million, RMB69,191 million and RMB70,699 million, respectively. The fair value gain/(loss) that would have been recognized in other comprehensive income if the financial assets had not been reclassified was RMB(6,674) million, RMB(215) million, RMB3,878 million and RMB5,386 million at December 31, 2013, 2014 and 2015, and March 31, 2016, respectively.

(All amounts in millions of RMB unless otherwise stated)

21.2 ***Held-to-maturity investments***

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
-Listed in Hong Kong	—	—	721	894
-Listed outside Hong Kong	681,543	654,934	679,536	672,380
-Unlisted	61	661	195	65
Subtotal	681,604	655,595	680,452	673,339
Certificates of deposits				
-Listed outside Hong Kong	—	—	2,072	1,997
Asset-backed securities				
-Listed outside Hong Kong	—	1,350	2,243	2,100
-Unlisted	—	4,568	—	—
Subtotal	—	5,918	2,243	2,100
Total	681,604	661,513	684,767	677,436
Fair value of listed held-to-maturity investments	636,944	663,985	710,865	707,514

The investments above listed outside Hong Kong are mainly traded on the China Domestic Interbank Bond Market.

(All amounts in millions of RMB unless otherwise stated)

Analyzed by types of issuers

The Group and the Bank

	As at December 31,			As at 31 March
	2013	**2014**	**2015**	**2016**
Debt securities				
Issuers from Mainland China				
-Government	289,310	289,952	357,101	358,403
-Public institutions and quasi-government	1,270	1,270	570	570
-Financial institutions	355,882	317,717	274,937	267,309
-Corporates	35,142	46,656	47,844	46,957
Issuers from other countries and regions				
-Financial institutions	—	—	—	100
Subtotal	681,604	655,595	680,452	673,339
Certificates of deposits				
-Financial institutions from Mainland China	—	—	2,072	1,997
Asset-backed securities				
-Financial institutions from Mainland China	—	5,918	2,243	2,100
Total	681,604	661,513	684,767	677,436

(All amounts in millions of RMB unless otherwise stated)

21.3 ***Investment classified as receivables***

The Group

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Debt securities					
-Listed outside Hong Kong		105,901	2,404	107,406	106,570
-Unlisted	(i)	198,096	305,005	976,127	976,053
Subtotal		303,997	307,409	1,083,533	1,082,623
Asset-backed securities					
-Unlisted		—	4,487	48,598	64,512
Other debt instruments					
-Unlisted	(ii)	150,720	460,856	755,307	559,694
Allowance for impairment losses - collective assessment (Note 26)		—	(2,272)	(3,940)	(3,245)
Total		454,717	770,480	1,883,498	1,703,584

The above investments listed outside Hong Kong are mainly traded on the China Domestic Interbank Bond Market.

(i) Debt securities included RMB778 billion long term special financial bonds issued by policy banks in 2015, with maturity of 5 to 20 years.

(ii) Other debt instruments primarily compromise trust investment plans, asset management plans and wealth management products.

(All amounts in millions of RMB unless otherwise stated)

Analyzed by types of issuers:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
Issuers from Mainland China				
-Government	1,896	1,761	2,217	2,743
-Financial institutions	296,500	297,899	1,076,413	1,075,630
-Corporates	5,601	7,749	4,903	4,250
Subtotal	303,997	307,409	1,083,533	1,082,623
Asset-backed securities				
-Financial institutions from Mainland China	—	4,487	48,598	64,512
Other debt instruments				
-Financial institutions from Mainland China	150,720	460,856	755,307	559,694
Allowance for impairment losses - collective assessment (Note 26)	—	(2,272)	(3,940)	(3,245)
Total	454,717	770,480	1,883,498	1,703,584

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
-Listed outside Hong Kong	105,901	2,770	107,406	106,570
-Unlisted	198,096	304,639	976,127	976,053
Subtotal	303,997	307,409	1,083,533	1,082,623
Asset-backed securities				
-Unlisted	—	4,853	48,939	64,853
Other debt instruments				
-Unlisted	150,720	460,856	755,277	559,524
Allowance for impairment losses - collective assessment (Note 26)	—	(2,340)	(4,008)	(3,313)
Total	454,717	770,778	1,883,741	1,703,687

(All amounts in millions of RMB unless otherwise stated)

Analyzed by types of issuers:

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Debt securities				
Issuers from Mainland China				
-Government	1,896	1,761	2,217	2,743
-Financial institutions	296,500	297,899	1,076,413	1,075,630
-Corporates	5,601	7,749	4,903	4,250
Subtotal	303,997	307,409	1,083,533	1,082,623
Asset-backed securities				
-Financial institutions from Mainland China	—	4,853	48,939	64,853
Other debt instruments				
-Financial institutions from Mainland China	150,720	460,856	755,277	559,524
Allowance for impairment losses-collective assessment (Note 26)	—	(2,340)	(4,008)	(3,313)
Total	454,717	770,778	1,883,741	1,703,687

22 Investment in a subsidiary

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Investment cost	—	—	615	615

(All amounts in millions of RMB unless otherwise stated)

On November 20, 2015, the Bank, together with other investors jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. ("PSBC Consumer Finance"). Registered in Guangzhou with a registered capital of RMB1 billion, PSBC Consumer Finance mainly engages in personal consumer loans; consumer financing advisory and agency services; agency sales of consumer loans related insurance products; borrowing from domestic financial institutions; authorized issuance of financial bonds; lending to domestic financial institutions; and fixed income securities investments. All service offerings are restricted to consumer financing only.

The Group owns 61.5% in the equity interest and voting rights of PSBC Consumer Finance.

The financial statements for the year ended December 31, 2015 of PSBC Consumer Finance Co., Ltd., the subsidiary of the Bank, were audited by PricewaterhouseCoopers Zhong Tian LLP Guangzhou Branch (普華永道中天會計師事務所(特殊普通合夥)廣州分所).

(All amounts in millions of RMB unless otherwise stated)

23 **Property and equipment**

The Group and the Bank

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2013	23,862	6,039	881	2,278	3,908	36,968
Add: Additions	828	630	47	661	4,518	6,684
Transfer-in from investment properties	134	—	—	—	—	134
Transfer-in from construction in progress	3,031	414	2	83	(3,530)	—
Less: Disposals	(38)	(172)	(25)	(36)	—	(271)
Transfer-out to investment properties	(8)	—	—	—	—	(8)
Transfer-out from construction in progress	—	—	—	—	(472)	(472)
As at December 31, 2013	27,809	6,911	905	2,986	4,424	43,035
Accumulated depreciation						
As at January 1, 2013	(3,552)	(3,708)	(467)	(748)	—	(8,475)
Add: Charge for the year	(1,307)	(1,240)	(167)	(510)	—	(3,224)
Transfer-in from investment properties	(26)	—	—	—	—	(26)
Less: Disposals	4	149	18	29	—	200
Transfer-out to investment properties	1	—	—	—	—	1
As at December 31, 2013	(4,880)	(4,799)	(616)	(1,229)	—	(11,524)
Carrying value						
As at December 31, 2013	22,929	2,112	289	1,757	4,424	31,511
As at January 1, 2013	20,310	2,331	414	1,530	3,908	28,493

(All amounts in millions of RMB unless otherwise stated)

The Group and the Bank

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2014	27,809	6,911	905	2,986	4,424	43,035
Add: Additions	621	756	36	606	6,503	8,522
Transfer-in from investment properties	7	—	—	—	—	7
Transfer-in from construction in progress	2,489	209	—	352	(3,050)	—
Less: Disposals	(13)	(293)	(29)	(55)	—	(390)
Transfer-out to investment properties	(3)	—	—	—	—	(3)
Transfer-out from construction in progress	—	—	—	—	(405)	(405)
As at December 31, 2014	30,910	7,583	912	3,889	7,472	50,766
Accumulated depreciation						
As at January 1, 2014	(4,880)	(4,799)	(616)	(1,229)	—	(11,524)
Add: Charge for the year	(1,423)	(1,092)	(147)	(574)	—	(3,236)
Transfer-in from investment properties	(1)	—	—	—	—	(1)
Less: Disposals	4	255	25	42	—	326
As at December 31, 2014	(6,300)	(5,636)	(738)	(1,761)	—	(14,435)
Carrying value						
As at December 31, 2014	24,610	1,947	174	2,128	7,472	36,331
As at January 1, 2014	22,929	2,112	289	1,757	4,424	31,511

(All amounts in millions of RMB unless otherwise stated)

The Group

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2015	30,910	7,583	912	3,889	7,472	50,766
Add: Additions	820	627	32	589	2,813	4,881
Transfer-in from investment properties	33	—	—	—	—	33
Transfer-in from construction in progress	1,169	618	—	127	(1,914)	—
Less: Disposals	(539)	(259)	(13)	(83)	—	(894)
Transfer-out to investment properties	(13)	—	—	—	—	(13)
Transfer-out from construction in progress	—	—	—	—	(851)	(851)
As at December 31, 2015	32,380	8,569	931	4,522	7,520	53,922
Accumulated depreciation						
As at January 1, 2015	(6,300)	(5,636)	(738)	(1,761)	—	(14,435)
Add: Charge for the year	(1,583)	(936)	(90)	(676)	—	(3,285)
Transfer-in from investment properties	(6)	—	—	—	—	(6)
Less: Disposals	21	266	12	47	—	346
Transfer out to investment properties	4	—	—	—	—	4
As at December 31, 2015	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Carrying value						
As at December 31, 2015	24,516	2,263	115	2,132	7,520	36,546
As at January 1, 2015	24,610	1,947	174	2,128	7,472	36,331

(All amounts in millions of RMB unless otherwise stated)

The Group

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2016	32,380	8,569	931	4,522	7,520	53,922
Add: Additions	175	67	3	26	619	890
Transfer-in from investment properties	7	—	—	—	—	7
Transfer-in from construction in progress	886	575	—	39	(1,500)	—
Less: Disposals	(5)	(50)	(2)	(2)	—	(59)
Transfer-out to investment properties	(203)	—	—	—	—	(203)
Transfer-out from construction in progress	—	—	—	—	(123)	(123)
As at March 31, 2016	33,240	9,161	932	4,585	6,516	54,434
Accumulated depreciation						
As at January 1, 2016	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Add: Charge for the period	(400)	(224)	(12)	(168)	—	(804)
Transfer-in from investment properties	(2)	—	—	—	—	(2)
Less: Disposals	—	48	1	2	—	51
Transfer out to investment properties	57	—	—	—	—	57
As at March 31, 2016	(8,209)	(6,482)	(827)	(2,556)	—	(18,074)
Carrying value						
As at March 31, 2016	25,031	2,679	105	2,029	6,516	36,360
As at January 1, 2016	24,516	2,263	115	2,132	7,520	36,546

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2015	30,910	7,583	912	3,889	7,472	50,766
Add: Additions	820	614	32	586	2,813	4,865
Transfer-in from investment properties	33	—	—	—	—	33
Transfer-in from construction in progress	1,169	618	—	127	(1,914)	—
Less: Disposals	(539)	(259)	(13)	(83)	—	(894)
Transfer-out to investment properties	(13)	—	—	—	—	(13)
Transfer-out from construction in progress	—	—	—	—	(851)	(851)
As at December 31, 2015	32,380	8,556	931	4,519	7,520	53,906
Accumulated depreciation						
As at January 1, 2015	(6,300)	(5,636)	(738)	(1,761)	—	(14,435)
Add: Charge for the year	(1,583)	(935)	(90)	(676)	—	(3,284)
Transfer-in from investment properties	(6)	—	—	—	—	(6)
Less: Disposals	21	266	12	47	—	346
Transfer out to investment properties	4	—	—	—	—	4
As at December 31, 2015	(7,864)	(6,305)	(816)	(2,390)	—	(17,375)
Carrying value						
As at December 31, 2015	24,516	2,251	115	2,129	7,520	36,531
As at January 1, 2015	24,610	1,947	174	2,128	7,472	36,331

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2016	32,380	8,556	931	4,519	7,520	53,906
Add: Additions	175	67	3	26	619	890
Transfer-in from investment properties	7	—	—	—	—	7
Transfer-in from construction in progress	886	575	—	39	(1,500)	—
Less: Disposals	(5)	(50)	(2)	(2)	—	(59)
Transfer-out to investment properties	(203)	—	—	—	—	(203)
Transfer-out from construction in progress	—	—	—	—	(123)	(123)
As at March 31, 2016	33,240	9,148	932	4,582	6,516	54,418
Accumulated depreciation						
As at January 1, 2016	(7,864)	(6,305)	(816)	(2,390)	—	(17,375)
Add: Charge for the period	(400)	(223)	(12)	(167)	—	(802)
Transfer-in from investment properties	(2)	—	—	—	—	(2)
Less: Disposals	—	48	1	2	—	51
Transfer out to investment properties	57	—	—	—	—	57
As at March 31, 2016	(8,209)	(6,480)	(827)	(2,555)	—	(18,071)
Carrying value						
As at March 31, 2016	25,031	2,668	105	2,027	6,516	36,347
As at January 1, 2016	24,516	2,251	115	2,129	7,520	36,531

Upon the Bank's establishment and restructuring, China Post Group injected certain property and equipment to the Bank as its capital contribution. Part of the properties were still in the process of renewing ownership certificates, with net book value amounted to RMB13.3 billion, RMB2.7 billion, RMB1.1 billion and RMB 1.0 billion as at December 31, 2013, 2014 and 2015, and March 31, 2016, respectively.

(All amounts in millions of RMB unless otherwise stated)

In addition, as at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with net book value of RMB2.7 billion, RMB2.2 billion, RMB1.7 billion and RMB1.7 billion, respectively.

The management of the Group believed the defects of the above mentioned properties did not have any material adverse effect on its business operations, operating performance and financial position.

All lands and buildings of the Group were located outside Hong Kong.

Property and equipment held under finance leases are as follows:

As at December 31, 2013	Cost	Accumulated depreciation	Carrying amount
Electronic equipment	594	(541)	53
Motor vehicles	129	(73)	56
Office equipment and other equipment	35	(26)	9
Total	758	(640)	118

As at December 31, 2014	Cost	Accumulated depreciation	Carrying amount
Electronic equipment	3	(3)	—
Motor vehicles	86	(69)	17
Office equipment and other equipment	8	(8)	—
Total	97	(80)	17

As at December 31, 2015	Cost	Accumulated depreciation	Carrying amount
Electronic equipment	16	(12)	4
Motor vehicles	7	(5)	2
Office equipment and other equipment	7	(6)	1
Total	30	(23)	7

(All amounts in millions of RMB unless otherwise stated)

As at March 31, 2016	Cost	Accumulated depreciation	Carrying amount
Buildings	145	(26)	119
Electronic equipment	7	(7)	—
Motor vehicles	7	(5)	2
Office equipment and other equipment	1	—	1
Total	160	(38)	122

24 **Deferred taxation**

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The following is the analysis of the deferred tax balances:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Deferred tax assets	4,315	6,998	9,199	9,179

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Deferred tax assets	4,315	6,998	9,197	9,174

(All amounts in millions of RMB unless otherwise stated)

(1) **The following are the movements and major deferred tax assets and liabilities recognized:**

The Group and the Bank

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Total
January 1, 2013	2,422	290	(515)	2,197
Credit to profit or loss	767	169	18	954
Credit to other comprehensive income	—	—	1,164	1,164
December 31, 2013	3,189	459	667	4,315

The Group and the Bank

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Total
January 1, 2014	3,189	459	667	4,315
Credit/(Charge) to profit or loss	3,954	183	(23)	4,114
Credit to other comprehensive income	—	—	(1,431)	(1,431)
December 31, 2014	7,143	642	(787)	6,998

The Group

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Deductible losses	Total
January 1, 2015	7,143	642	(787)	—	6,998
Credit/(Charge) to profit or loss	3,582	(514)	10	2	3,080
Credit/(Charge) to other comprehensive income	—	—	(879)	—	(879)
December 31, 2015	10,725	128	(1,656)	2	9,199
January 1, 2016	10,725	128	(1,656)	2	9,199
Credit/(Charge) to profit or loss	(71)	—	(123)	3	(191)
Credit to other comprehensive income	—	—	171	—	171
March 31, 2016	10,654	128	(1,608)	5	9,179

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Total
January 1, 2015	7,143	642	(787)	6,998
Credit/(Charge) to profit or loss	3,582	(514)	10	3,078
Credit/(Charge) to other comprehensive income	—	—	(879)	(879)
December 31, 2015	10,725	128	(1,656)	9,197
January 1, 2016	10,725	128	(1,656)	9,197
Credit/(Charge) to profit or loss	(71)	—	(123)	(194)
Credit to other comprehensive income	—	—	171	171
March 31, 2016	10,654	128	(1,608)	9,174

(2) **Deferred income tax assets and liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items**

The Group

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets								
Allowance for impairment losses	12,756	3,189	28,573	7,143	42,901	10,725	42,616	10,654
Fair value changes of financial instruments	18,471	4,618	625	156	44	11	—	—
Staff cost accrued but not paid	1,837	459	2,568	642	510	128	512	128
Deductible losses	—	—	—	—	7	2	20	5
Total	33,064	8,266	31,766	7,941	43,462	10,866	43,148	10,787
Deferred tax liabilities								
Fair value changes of financial instruments	(15,804)	(3,951)	(3,772)	(943)	(6,669)	(1,667)	(6,432)	(1,608)
Total	(15,804)	(3,951)	(3,772)	(943)	(6,669)	(1,667)	(6,432)	(1,608)
Net carrying amount	17,260	4,315	27,994	6,998	36,793	9,199	36,716	9,179

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible /(Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets								
Allowance for impairment losses	12,756	3,189	28,573	7,143	42,901	10,725	42,616	10,654
Fair value changes of financial instruments	18,471	4,618	625	156	44	11	—	—
Staff cost accrued but not paid	1,837	459	2,568	642	510	128	512	128
Total	33,064	8,266	31,766	7,941	43,455	10,864	43,128	10,782
Deferred tax liabilities								
Fair value changes of financial instruments	(15,804)	(3,951)	(3,772)	(943)	(6,669)	(1,667)	(6,432)	(1,608)
Total	(15,804)	(3,951)	(3,772)	(943)	(6,669)	(1,667)	(6,432)	(1,608)
Net carrying amount	17,260	4,315	27,994	6,998	36,786	9,197	36,696	9,174

25 Other assets

The Group

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Interest receivable		35,151	33,523	30,837	36,952
Accounts receivable and temporary payments		2,966	3,399	3,977	9,300
Long-term prepaid expenses	(1)	2,486	2,001	1,555	1,451
Land use rights	(2)	1,811	1,793	1,901	1,892
Investment properties	(3)	892	828	755	875
Intangible assets	(4)	814	934	1,475	1,577
Others		2,947	8,997	5,294	8,717
Gross amount		47,067	51,475	45,794	60,764
Allowances for doubtful accounts receivable (Note 26)		(413)	(447)	(231)	(246)
Net value		46,654	51,028	45,563	60,518

(All amounts in millions of RMB unless otherwise stated)

The Bank

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Interest receivable		35,151	33,523	30,836	36,947
Accounts receivable and temporary payments		2,966	3,399	3,977	9,300
Long-term prepaid expenses	(1)	2,486	2,001	1,545	1,443
Land use rights	(2)	1,811	1,793	1,901	1,892
Investment properties	(3)	892	828	755	875
Intangible assets	(4)	814	934	1,451	1,553
Others		2,947	8,997	5,292	8,714
Gross amount		47,067	51,475	45,757	60,724
Allowances for doubtful accounts receivable (Note 26)		(413)	(447)	(231)	(246)
Net value		46,654	51,028	45,526	60,478

(1) Long-term prepaid expenses are mainly cost for improvement of property and equipment under operating lease and prepaid rental fees.

(2) Land use rights are classified in other assets and amortized over a straight-line basis over the respective lease periods, which range from 10 to 40 years.

(All amounts in millions of RMB unless otherwise stated)

(3) **Investment properties**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Cost				
Balance at beginning of year/period	1,282	1,156	1,152	1,132
Add: Transfer-in from property and equipment	8	3	13	203
Less: Transfer-out to property and equipment	(134)	(7)	(33)	(7)
At end of year/period	1,156	1,152	1,132	1,328
Accumulated depreciation				
Balance at beginning of year/period	(222)	(264)	(324)	(377)
Add: Provision in current year/period	(67)	(61)	(55)	(21)
Transfer-in from property and equipment	(1)	—	(4)	(57)
Less: Transfer-out to property and equipment	26	1	6	2
At end of year/period	(264)	(324)	(377)	(453)
Net book value	892	828	755	875

As at December 31, 2013, investment properties received from China Post Group during the Bank's establishment, with a net book value of 0.9 billion, were still pending for updating property ownership certificates. All investment properties from China Post Group had completed ownership transfer as at December 31, 2014, 2015 and March 31, 2016.

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(4) Intangible assets of the Group mainly include computer software which is amortized over 10 years.

(All amounts in millions of RMB unless otherwise stated)

26 Movements of allowances for impairment losses

The Group and the Bank

	December 31, 2013				
			Increase/(Decrease) in current year		
	Balance at beginning of the year	Current year provision	Recovery	Written off and transferred out	Balance at end of the year
Allowance for impairment losses of placements with banks and other financial institutions	355	578	—	—	933
Allowance for impairment losses of loans and advances to customers	22,998	8,066	(58)	(1,661)	29,345
Allowance for impairment losses of other assets	383	30	—	—	413
Total	23,736	8,674	(58)	(1,661)	30,691

The Group

	December 31, 2014				
			Increase/(Decrease) in current year		
	Balance at beginning of the year	Current year provision	Recovery	Written off and transferred out	Balance at end of the year
Allowance for impairment losses of placements with banks and other financial institutions	933	160	—	—	1,093
Allowance for impairment losses of investment classified as receivables	—	2,272	—	—	2,272
Allowance for impairment losses of loans and advances to customers	29,345	17,921	24	(3,609)	43,681
Allowance for impairment losses of other assets	413	59	—	(25)	447
Total	30,691	20,412	24	(3,634)	47,493

(All amounts in millions of RMB unless otherwise stated)

The Bank

	December 31, 2014				
			Increase/(Decrease) in current year		
	Balance at beginning of the year	Current year provision	Recovery	Written off and transferred out	Balance at end of the year
Allowance for impairment losses of placements with banks and other financial institutions	933	160	—	—	1,093
Allowance for impairment losses of investment classified as receivables	—	2,340	—	—	2,340
Allowance for impairment losses of loans and advances to customers	29,345	17,853	24	(3,609)	43,613
Allowance for impairment losses of other assets	413	59	—	(25)	447
Total	30,691	20,412	24	(3,634)	47,493

The Group

	December 31, 2015				
			Increase/(Decrease) in current year		
	Balance at beginning of the year	Current year provision	Recovery	Written off and transferred out	Balance at end of the year
Allowance for impairment losses of placements with banks and other financial institutions	1,093	549	—	—	1,642
Allowance for impairment losses of investment classified as receivables	2,272	1,668	—	—	3,940
Allowance for impairment losses of loans and advances to customers	43,681	23,186	(28)	(7,581)	59,258
Allowance for impairment losses of other assets	447	197	—	(413)	231
Total	47,493	25,600	(28)	(7,994)	65,071

(All amounts in millions of RMB unless otherwise stated)

The Bank

	December 31, 2015				
			Increase/(Decrease) in current year		
	Balance at beginning of the year	Current year provision	Recovery	Written off and transferred out	Balance at end of the year
Allowance for impairment losses of placements with banks and other financial institutions	1,093	549	—	—	1,642
Allowance for impairment losses of investment classified as receivables	2,340	1,668	—	—	4,008
Allowance for impairment losses of loans and advances to customers	43,613	23,185	(28)	(7,581)	59,189
Allowance for impairment losses of other assets	447	197	—	(413)	231
Total	47,493	25,599	(28)	(7,994)	65,070

The Group

	March 31, 2016				
			Increase/(Decrease) in current period		
	Balance at beginning of the period	Current year provision/ (write-back)	Recovery	Written off and transferred out	Balance at end of the period
Allowance for impairment losses of placements with banks and other financial institutions	1,642	(1,518)	—	—	124
Allowance for impairment losses of investment classified as receivables	3,940	(695)	—	—	3,245
Allowance for impairment losses of loans and advances to customers	59,258	4,302	255	(2,172)	61,643
Allowance for impairment losses of other assets	231	39	—	(24)	246
Total	65,071	2,128	255	(2,196)	65,258

(All amounts in millions of RMB unless otherwise stated)

The Bank

	March 31, 2016				
		Increase/(Decrease) in current period			
	Balance at beginning of the period	Current year provision/ (write-back)	Recovery	Written off and transferred out	Balance at end of the period
Allowance for impairment losses of placements with banks and other financial institutions	1,642	(1,518)	—	—	124
Allowance for impairment losses of investment classified as receivables	4,008	(695)	—	—	3,313
Allowance for impairment losses of loans and advances to customers	59,189	4,296	255	(2,172)	61,568
Allowance for impairment losses of other assets	231	39	—	(24)	246
Total	65,070	2,122	255	(2,196)	65,251

27 **Deposits from banks and other financial institutions**

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Deposits from:				
Domestic banks	3,601	7,302	60,215	132,957
Other domestic financial institutions	21,559	33,317	31,136	63,714
Total	25,160	40,619	91,351	196,671

All counterparties are entities from Mainland China.

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Deposits from:				
Domestic banks	3,601	7,302	60,215	132,957
Other domestic financial institutions	21,559	33,317	31,277	63,721
Total	25,160	40,619	91,492	196,678

28 **Placements from banks and other financial institutions**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Placements from:				
Domestic banks	11,431	16,730	69,039	73,675
Other domestic financial institutions	—	300	500	—
Overseas banks	824	1,234	1,320	1,445
Total	12,255	18,264	70,859	75,120

29 **Financial liabilities at fair value through profit or loss**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Short selling of bonds	—	—	—	129
Wealth management products	—	—	4,139	5,967
Total	—	—	4,139	6,096

(All amounts in millions of RMB unless otherwise stated)

The Group designates its principal-guaranteed wealth management products as financial liabilities at fair value through profit or loss, and designates its investments made with proceeds from these wealth management products as financial assets at fair value through profit or loss. As at December 31, 2015 and March 31, 2016 there was no significant discrepancy between the fair value of the Group's wealth management products and the contractual amount payable to the holders of these products upon maturity. During the year ended December 31, 2015 and the three months ended March 31, 2016, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in the Group's own credit risks.

30 Financial assets sold under repurchase agreements

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Analyzed by types of collateral:				
Debt securities	56,979	111,434	386,767	265,227
Bills	18,515	4,484	8,050	9,836
Total	75,494	115,918	394,817	275,063

The collateral pledged under repurchase agreement is disclosed in "Note 41.5 Contingent liabilities and commitments - Collateral".

(All amounts in millions of RMB unless otherwise stated)

31 **Customer deposits**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Demand deposits				
Corporates	500,386	553,671	616,251	620,556
Personal	1,791,734	1,900,625	2,051,015	2,139,019
Subtotal	2,292,120	2,454,296	2,667,266	2,759,575
Time deposits				
Corporates	168,073	216,405	301,356	293,490
Personal	2,745,815	3,131,696	3,335,615	3,678,472
Subtotal	2,913,888	3,348,101	3,636,971	3,971,962
Other deposits	460	549	777	844
Total	5,206,468	5,802,946	6,305,014	6,732,381

As at December 31, 2013, 2014 and 2015, and March 31, 2016, customer deposits received by the Group included pledged deposits of RMB7.2 billion, RMB12.2 billion, RMB22.7 billion and RMB25.3 billion respectively.

32 **Debt securities issued**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Subordinated debts	—	—	24,973	24,974

In September 2015, upon the approval from CBRC and PBOC, the Group issued RMB25 billion of 10-year tier 2 capital bonds at a fixed interest rate of 4.5%, paying interest annually. The Group has an option to redeem part or all of the bonds at face value in September 2020 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBRC. If the Group does not exercise this redemption right, the annual interest rate would remain at 4.5% from September 2020 onward. The tier 2 capital bonds contain a write-down feature, which allows the

(All amounts in millions of RMB unless otherwise stated)

Group to write down the entire principal of the bonds when a regulatory triggering event occurs as stipulated in the offering documents and not to pay any outstanding interests payable that have been accumulated. These tier 2 capital bonds meet the relevant criteria of CBRC and are qualified for tier 2 capital instruments.

33 Other liabilities

The Group

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Interest payable		76,869	86,195	91,317	77,043
Payables for agency services		18,804	15,500	15,828	10,113
Settlement and clearance payables		3,893	11,526	4,221	7,324
Employee benefits payable	(1)	2,425	3,423	6,219	6,543
Dividends payable		—	—	—	4,000
Business and other taxes payable		2,103	2,406	2,476	2,188
Exchange transaction payables		1,628	1,303	1,229	1,191
Corporate income tax		1,583	4,197	3,584	3,972
Payables to China Post Group and its subsidiaries		1,573	1,605	1,309	2,199
Payable for construction cost		723	614	604	678
Payable for finance lease		229	112	38	27
Others		3,893	5,368	6,516	7,153
Total		113,723	132,249	133,341	122,431

(All amounts in millions of RMB unless otherwise stated)

The Bank

	Note	As at December 31, 2013	2014	2015	As at March 31, 2016
Interest payable		76,869	86,195	91,317	77,043
Payables for agency services		18,804	15,500	15,828	10,113
Settlement and clearance payables		3,893	11,526	4,221	7,324
Employee benefits payable	(1)	2,425	3,423	6,219	6,543
Dividends payable		—	—	—	4,000
Business and other taxes payable		2,103	2,406	2,475	2,187
Exchange transaction payables		1,628	1,303	1,229	1,191
Corporate income tax		1,583	4,197	3,584	3,972
Payables to China Post Group and its subsidiaries		1,573	1,605	1,309	2,199
Payable for construction cost		723	614	604	678
Payable for finance lease		229	112	38	27
Others		3,893	5,368	6,479	7,116
Total		113,723	132,249	133,303	122,393

(1) ***Employee benefits payable***

The Group and the Bank

	Note	As at December 31, 2013	2014	2015	As at March 31, 2016
Short-term employee benefits	(i)	1,512	2,397	4,963	5,065
Defined contribution benefits	(ii)	457	589	741	967
Supplementary retirement benefits	(iii)	456	437	515	511
Total		2,425	3,423	6,219	6,543

(All amounts in millions of RMB unless otherwise stated)

(i) ***Short-term employee benefits***

The Group and the Bank

	December 31, 2013			
	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at the end of year
Wages and salaries, bonus, allowances and subsidies	825	17,850	(17,277)	1,398
Staff welfare	—	1,013	(1,013)	—
Social security contributions	15	649	(645)	19
Including: Medical insurance	13	571	(567)	17
Work injury insurance	1	37	(37)	1
Maternity insurance	1	41	(41)	1
Housing funds	13	1,135	(1,130)	18
Labour union funds and employee education funds	58	424	(405)	77
Total	911	21,071	(20,470)	1,512

The Group and the Bank

	December 31, 2014			
	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at the end of year
Wages and salaries, bonus, allowances and subsidies	1,398	22,033	(21,300)	2,131
Staff welfare	—	1,165	(1,161)	4
Social security contributions	19	883	(869)	33
Including: Medical insurance	17	783	(770)	30
Work injury insurance	1	47	(47)	1
Maternity insurance	1	53	(52)	2
Housing funds	18	1,438	(1,440)	16
Labour union funds and employee education funds	77	651	(515)	213
Total	1,512	26,170	(25,285)	2,397

(All amounts in millions of RMB unless otherwise stated)

The Group and the Bank

	December 31, 2015			
	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at the end of year
Wages and salaries, bonus, allowances and subsidies	2,131	25,726	(23,340)	4,517
Staff welfare	4	1,257	(1,257)	4
Social security contributions	33	1,184	(1,192)	25
Including: Medical insurance	30	1,053	(1,061)	22
Work injury insurance	1	61	(61)	1
Maternity insurance	2	70	(70)	2
Housing funds	16	1,881	(1,881)	16
Labour union funds and employee education funds	213	796	(608)	401
Total	2,397	30,844	(28,278)	4,963

The Group and the Bank

	March 31, 2016			
	Balance at beginning of period	Increase in current period	Decrease in current period	Balance at the end of period
Wages and salaries, bonus, allowances and subsidies	4,517	6,064	(6,139)	4,442
Staff welfare	4	219	(212)	11
Social security contributions	25	358	(290)	93
Including: Medical insurance	22	326	(260)	88
Work injury insurance	1	14	(13)	2
Maternity insurance	2	18	(17)	3
Housing funds	16	551	(506)	61
Labour union funds and employee education funds	401	177	(120)	458
Total	4,963	7,369	(7,267)	5,065

(All amounts in millions of RMB unless otherwise stated)

(ii) ***Defined contribution benefits***

The Group and the Bank

	December 31, 2013			
	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at the end of year
Basic pensions	32	1,545	(1,534)	43
Unemployment insurance	4	104	(103)	5
Annuity scheme	367	357	(315)	409
Total	403	2,006	(1,952)	457

	December 31, 2014			
	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at the end of year
Basic pensions	43	1,980	(1,957)	66
Unemployment insurance	5	132	(132)	5
Annuity scheme	409	427	(318)	518
Total	457	2,539	(2,407)	589

	December 31, 2015			
	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at the end of year
Basic pensions	66	2,594	(2,594)	66
Unemployment insurance	5	148	(148)	5
Annuity scheme	518	575	(423)	670
Total	589	3,317	(3,165)	741

(All amounts in millions of RMB unless otherwise stated)

	March 31, 2016			
	Balance at beginning of period	Increase in current period	Decrease in current period	Balance at the end of period
Basic pensions	66	762	(762)	66
Unemployment insurance	5	40	(36)	9
Annuity scheme	670	185	37	892
Total	741	987	(761)	967

(iii) ***Supplementary retirement benefits***

The retirement benefit obligations of the Group refer to supplementary benefits for retirees and early-retirees recognized in the consolidated income statement using the projected unit credit method as follows:

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Balance at beginning of year/period	330	456	437	515
Interest expenses	22	19	16	5
Gain or loss from actuarial calculation	149	(4)	92	—
Charged to profit or losses	149	(4)	(5)	—
Charged to other comprehensive income	—	—	97	—
Benefits paid	(45)	(34)	(30)	(9)
Balance at the end of year/period	456	437	515	511

(All amounts in millions of RMB unless otherwise stated)

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Discount rate-retirement benefit plan	4.13%	4.19%	3.25%	3.25%
Discount rate-early retirement benefit plan	3.12%	3.46%	2.75%	2.50%
Annual growth rate of average medical expenses	8%	8%	8%	8%
Annual growth rates of retiree expenses	3% and 0%	3% and 0%	3% and 0%	3% and 0%
Annual growth rates of early-retiree expenses	6%, 3% and 0%	6%, 3% and 0%	6%, 3% and 0%	6%, 3% and 0%
Normal retirement age				
- Male	60	60	60	60
- Female	55,50	55,50	55,50	55,50

Assumption for future mortality rate is based on the China Life Insurance Mortality Table (2000-2003), which is the statistical information publicly available in China.

As at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group has no default on the staff costs payable above.

34 Share capital

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Number of shares, issued and fully paid at par value (in millions)				
-At beginning of year/period	45,000	47,000	57,000	68,604
-Addition in current year/period	2,000	10,000	11,604	—
-At end of year/period	47,000	57,000	68,604	68,604

In 2013 and 2014, the Bank received capital contribution of RMB2 billion and RMB10 billion from China Post Group, and the Bank updated the registered capital in 2014 and 2015 respectively.

(All amounts in millions of RMB unless otherwise stated)

In December 2015, CBRC approved the Bank's application for private placement of RMB11.604 billion new shares to the Strategic Investors. After the share issuance, the Bank's total share capital increased to RMB68.604 billion, and China Post Group holds 83.08% interest in the Bank. As at December 31, 2015, the Bank received share contributions of approximately RMB45.14 billion from the Strategic Investors, including share capital of RMB11.604 billion and share premium of RMB33.536 billion. No single Strategic Investor hold more than 5% interest in the Bank. The Bank completed the business registration update in March 2016.

35 **Capital reserve**

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
At beginning of year/period	3,448	3,448	3,448	36,887
Addition in current year/period				
- Share premium (Note 34)	—	—	33,536	—
- Remeasurement of retirement benefit obligations	—	—	(97)	—
At end of year/period	3,448	3,448	36,887	36,887

In 2013 and 2014, capital reserve was mainly asset revaluation appreciation from the Bank's joint stock restructuring.

36 **Other reserves**

36.1 ***Surplus reserve***

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
At beginning of year/period	6,677	9,668	12,925	16,411
Appropriations	2,991	3,257	3,486	—
At end of year/period	9,668	12,925	16,411	16,411

(All amounts in millions of RMB unless otherwise stated)

In accordance with the *Company Law of the People's Republic of China*, the Bank's Articles of Association and the resolutions of its Board of Directors, the Bank shall appropriate 10% of its net profit for the year to the statutory surplus reserve, and can cease appropriation when the statutory surplus reserve accumulates to more than 50% of the registered capital.

36.2 ***General reserve***

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
At beginning of year/period	33,318	58,512	66,887	84,754
Appropriations	25,194	8,375	17,867	—
At end of year/period	58,512	66,887	84,754	84,754

In accordance with the "*Administrative Measures for Provisioning of Financial Enterprises*" (金融企業準備金計提管理辦法) issued by the MOF on March 30, 2012, the balance of general risk reserve should be no less than 1.5% of its risk assets at the end of each year. Banks are required to make adequate provisions to its general risk reserve within 5 years from July 1, 2012.

36.3 ***Investment revaluation reserve***

The Group and the Bank

	Gross amount	Taxation effect	Net carrying amount
January 1, 2013	2,061	(515)	1,546
Changes in fair value of available-for-sale financial assets	(4,619)	1,155	(3,464)
Transferred to profit or loss			
- Upon disposal of available-for-sale financial assets	84	(21)	63
- Others	(119)	30	(89)
December 31, 2013	(2,593)	649	(1,944)

(All amounts in millions of RMB unless otherwise stated)

	Gross amount	Taxation effect	Net carrying amount
January 1, 2014	(2,593)	649	(1,944)
Changes in fair value of available-for-sale financial assets	4,333	(1,083)	3,250
Transferred to profit or loss			
- Upon disposal of available-for-sale financial assets	1,418	(354)	1,064
- Others	(25)	6	(19)
December 31, 2014	3,133	(782)	2,351

	Gross amount	Taxation effect	Net carrying amount
January 1, 2015	3,133	(782)	2,351
Changes in fair value of available-for-sale financial assets	3,826	(956)	2,870
Transferred to profit or loss			
- Upon disposal of available-for-sale financial assets	(213)	53	(160)
- Others	(97)	24	(73)
December 31, 2015	6,649	(1,661)	4,988

	Gross amount	Taxation effect	Net carrying amount
January 1, 2016	6,649	(1,661)	4,988
Changes in fair value of available-for-sale financial assets	(582)	145	(437)
Transferred to profit or loss			
- Upon disposal of available-for-sale financial assets	(80)	20	(60)
- Others	(23)	6	(17)
March 31, 2016	5,964	(1,490)	4,474

(All amounts in millions of RMB unless otherwise stated)

37 **Dividends**

In accordance with the resolution of the Board of Directors on February 21, 2013, dividends of RMB2 billion in respect of 2012 with RMB0.044 per share, were paid to China Post Group in May 2013.

In accordance with resolutions of the Board of Directors, no dividend was declared for the year ended December 31, 2014 and 2015.

The Bank's first extraordinary shareholders' meeting on March 3, 2016 approved the Bank's distribution of RMB9 billion cash dividends attributable to the profits for the period between January 1, 2015 and December 17, 2015 to China Post Group with RMB0.158 per share, and the Bank paid RMB5 billion and RMB4 billion of the dividends to China Post Group on March 14, 2016 and April 28, 2016 respectively.

38 **Cash and cash equivalents**

For the purpose of presentation of the consolidated cash flow statements, cash and cash equivalents include the following balances with an original maturity within 3 months:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Cash	45,462	47,848	46,188	46,331
Non-restricted deposits with central bank	12,152	54,266	17,294	177,959
Deposits with banks and other financial institutions	5,368	117,367	6,342	10,815
Placements with banks and other financial institutions	287	4,614	36,109	82,109
Financial assets held under resale agreements	21,721	313,577	121,359	278,541
Short-term debt securities	750	269	69	9,541
Total	85,740	537,941	227,361	605,296

(All amounts in millions of RMB unless otherwise stated)

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Cash	45,462	47,848	46,188	46,258
Non-restricted deposits with central bank	12,152	54,266	17,294	177,959
Deposits with banks and other financial institutions	5,368	117,367	5,822	10,675
Placements with banks and other financial institutions	287	4,614	36,109	82,109
Financial assets held under resale agreements	21,721	313,577	121,359	278,541
Short-term debt securities	750	269	69	9,541
Total	85,740	537,941	226,841	605,083

39 Transactions with related parties

39.1 *Information of the parent company*

(1) *General information of the parent company*

	Place of registration	Nature of business
China Post Group	Beijing	Domestic and international mail delivery, distribution of publications, stamps issuance, postal remittance, confidential correspondence communication, postal financial, postal express delivery and postal logistics, etc.

The MOF holds 100% interest and voting rights of China Post Group.

(2) As at December 31, 2013, 2014 and 2015, and March 31, 2016, China Post Group held 100%, 100%, 83.08% and 83.08% of the equity shares and voting rights in the Bank respectively.

(All amounts in millions of RMB unless otherwise stated)

39.2 ***Information of major related parties***

Name of enterprise	Relationship with the Group
China Postal Express & Logistics Limited and its subsidiaries	Under the common control of China Post Group
China Post Life Insurance Limited	Under the common control of China Post Group
China Post & Capital Fund Management Co., Ltd.	An associate of China Post Group

39.3 ***Related party transactions***

(1) *Services from China Post Group and its provincial branches*

In addition to conducting commercial banking services at its owned business locations, the Group also engages China Post Group and its provincial branches as agents to provide certain commercial banking services at China Post Group's business locations where financial operating licenses have been obtained. These commercial banking services mainly include: deposits taking; bank card (debit card) services, repayment of credit cards; electronic banking business; agency underwriting and redemption of government bonds; certification of personal deposits; agency sales of fund products and personal wealth management products, and other agency services. In accordance with the *Interim Administrative Measures for Institutional Agency of Postal Savings Bank of China (中國郵政儲蓄銀行代理營業機構管理暫行辦法)* issued by CBRC, all agency operations were provided by China Post Group under bases of fees determined in accordance with the *Agency Banking Businesses Framework Agreement (2012)* (*代理銀行業務框架協議 (2012)*) and the *Agreement on Entrusted and Agency Banking Services (委託代理銀行業務協議)* entered into between the Bank and China Post Group and its provincial branches.

For RMB deposit-taking services, the basis is computed based on the principle of "Fixed Rate, Scaled Fees Based on Deposit Type (固定費率、分檔計費)", i.e. different deposit agency fees rates are applicable to savings deposits with different maturity. The formula of calculating the scaled fees is as follows:

Monthly deposit agency fee at the relevant branch = (aggregate amount of deposit for each type of deposit at the branch for the month times the number of days of deposit X the respective deposit agency fee rate of the relevant type of deposit /365) - aggregate cash times the number of days at the relevant branch X 1.5%/365

The Group pays deposit agency fees for agency savings deposits received, net of cash reserves held by agency outlets and deposits in transit.

The agency fee rates range from 0.2% to 2.3% during the Relevant Periods.

(All amounts in millions of RMB unless otherwise stated)

The agency fee for foreign currency deposit-taking was insignificant, and it is determined in line with industrial practice, applying market rate such as the composite interest rate of the China Interbank Foreign Currency Market.

For intermediary business services performed by agency outlets such as settlement and sales services, the agency fees are determined based on the income from agency services net of all direct taxes and expenses.

Agency fees payable to China Post Group and its provincial branches are settled regularly.

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Deposit agency fees	46,058	50,366	54,397	13,301	14,667
Fees for agency savings settlement	4,195	4,423	4,334	1,169	1,100
Fees for agency sales and other commissions	525	664	1,208	202	419
Total	50,778	55,453	59,939	14,672	16,186

(2) *Operating lease with related parties*

The Group and the related parties lease buildings, ancillary equipment and other properties from each other through operating leasing during the course of business.

As lessor

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Buildings	42	49	51	8	23
Others	19	19	51	2	6
Total	61	68	102	10	29

(All amounts in millions of RMB unless otherwise stated)

As lessee

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Buildings	720	760	790	171	226
Others	46	51	64	6	11
Total	766	811	854	177	237

(3) *Comprehensive services and goods transactions with the related parties*

Rendering services or selling general office supplies to related parties

		Year ended December 31,			For the three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
Comprehensive services rendered to related parties	(i)	24	35	35	6	9
General office supplies sold to related parties		2	1	2	1	1
Total		26	36	37	7	10

(i) Comprehensive services rendered to related parties include equipment maintenance, cash escort and other services.

Receiving services or purchasing products from related parties

		Year ended December 31,			For the three months ended March 31,	
	Note	2013	2014	2015	2015	2016
					(unaudited)	
Comprehensive services received from related parties	(ii)	739	725	746	111	183
Marketing services received from related parties		481	446	448	106	455
Goods purchased from related parties		84	108	95	12	15
Total		1,304	1,279	1,289	229	653

(All amounts in millions of RMB unless otherwise stated)

(ii) Comprehensive services received from related parties include property management services, advertising, mailing, labor and other services.

(4) *Credit facilities granted to related Parties*

(i) As at December 31, 2013, outstanding balance of loans and advances to related parties was RMB1.09 million with annual interest rate at 5.76%. These loans and advances were not overdue or impaired. As at December 31, 2014 and 2015, and March 31, 2016, the Group had no outstanding loans and advances to related parties.

(ii) No performance guarantees were provided as at December 31, 2013 and 2015 and March 31, 2016 (As at December 31, 2014: RMB5 million).

(iii) As at December 31, 2013 and 2014, and March 31, 2016, the Group had not provided acceptance credit to related parties (As at December 31, 2015: RMB2 million).

(5) *Deposits from related parties*

	As at December 31,			As at March 31,
	2013	**2014**	**2015**	**2016**
China Post Group	7,049	11,339	10,816	14,908
China Post Express & Logistics Company Limited and its subsidiaries	1,096	1,644	1,601	1,108
Other related parties	79	359	857	868
Total	8,224	13,342	13,274	16,884
Interest rates per annum	0.35%~3.75%	0.35%~3.75%	0.30%~3.75%	0.30%~3.75%

During each of the years ended December 31, 2013, 2014 and 2015, and the three months ended March 31, 2016, interest expenses on deposits paid to related parties were not significant.

(All amounts in millions of RMB unless otherwise stated)

(6) *Income from agency services provided to related parties*

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Insurance agency sales for China Post Life Insurance Company Limited	50	41	47	31	25
Fund agency sales for China Post & Capital Fund Management Co., Ltd.	24	30	42	9	6

39.4 ***Balance with related parties***

(1) *Accounts receivable*

	As at December 31,			As at March 31,
	2013	2014	2015	2016
China Post Group	147	195	233	326

(2) *Accounts payable*

	As at December 31,			As at March 31,
	2013	2014	2015	2016
China Post Group (Note 33)	1,573	1,605	1,309	2,199

(All amounts in millions of RMB unless otherwise stated)

39.5 ***Commitments***

As at the balance sheet date, related-party commitments were mainly operating lease commitments:

	As at December 31,			As at March 31,
	2013	2014	2015	2016
China Post Group	355	777	517	783

39.6 ***The Group and other government related entities***

Other than disclosed above and also in other relevant notes in this Financial Information, part of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other state controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

39.7 ***Key management personnel compensation***

Key management of the Group are persons who have rights and responsibility to plan, execute and control the Group's operating activities. These personnel include Directors of the Board, Supervisors of the Supervisory Board and senior management.

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(unaudited)	
Key management personnel compensation	7	11	13	6	6

(All amounts in millions of RMB unless otherwise stated)

40 Structured entities

(1) *Unconsolidated structured entities managed by the Group*

Unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles ("WMP Vehicles") formed to issue and distribute wealth management products ("WMPs"), which are not subject to any guarantee by the Group in respect the principal invested or interest to be paid. The WMP Vehicles invest in a range of fixed-rate assets, including money market instruments, debt securities and loan assets. As the manager of the WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income. The variable return earned by the Group under the WMPs is not significant; therefore, the WMP Vehicles are not consolidated by the Group.

As at December 31, 2013, 2014, and 2015, and March 31, 2016, the Group's maximum risk exposure to these wealth management products was its fee and commission income from these products. As at December 31, 2013, 2014 and 2015, and March 31, 2016, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB135.5 billion, RMB247.1 billion, RMB470.4 billion and RMB571.9 billion respectively. The Group earned fee and commission of RMB0.9 billion, RMB1.1 billion, RMB2.1 billion, RMB0.5 billion and RMB0.8 billion from these WMPs for the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2015 and 2016, respectively.

For each of the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2015 and 2016, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. During each of years ended December 31, 2013, 2014, and 2015 and for the three months ended March 31, 2015 and 2016, the WMP Vehicles did not incur any losses, or experience any difficulty in financing their activities.

(All amounts in millions of RMB unless otherwise stated)

(2) ***Unconsolidated structured entities held by the Group***

Unconsolidated structured entities invested by the Group comprise trust investment plans, fund investment, asset-backed securities, asset management plans, and WMPs held by the Group as investments, and the Group records trading gains or losses and interest income therefrom. As at December 31, 2013, 2014, and 2015 and March 31, 2016, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

The Group

	As at December 31, 2013			
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Equity instruments	2,293	—	—	2,293
Asset-backed securities	978	—	—	978
Other debt instruments	—	—	150,720	150,720
Total	3,271	—	150,720	153,991

The Group

	As at December 31, 2014			
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Equity instruments	1,957	—	—	1,957
Asset-backed securities	13,539	5,918	4,465	23,922
Other debt instruments	—	—	458,606	458,606
Total	15,496	5,918	463,071	484,485

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at December 31, 2015			
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Equity instruments	263,662	—	—	263,662
Asset-backed securities	23,280	2,243	48,358	73,881
Other debt instruments	—	—	751,607	751,607
Total	286,942	2,243	799,965	1,089,150

The Group

	As at March 31, 2016			
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Equity instruments	308,483	—	—	308,483
Asset-backed securities	23,526	2,100	64,177	89,803
Other debt instruments	—	—	556,784	556,784
Total	332,009	2,100	620,961	955,070

No open market information was readily available for overall scale of those unconsolidated structured entities mentioned above.

(All amounts in millions of RMB unless otherwise stated)

For the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2015 and 2016 respectively, income from these unconsolidated structured entities earned by the Group was as follows:

The Group

	Year ended December 31,			Three months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
				(unaudited)	
Interest income	2,509	15,344	35,531	7,927	10,687
Net gain arising from investment securities	56	132	594	10	1,945
Other comprehensive income	(70)	(89)	41	(128)	1,213
Total	2,495	15,387	36,166	7,809	13,845

For the years ended December 31, 2013, 2014 and 2015, and for the three months periods ended March 31, 2015 and 2016, the Group did not experience any losses related to the above structured entities.

(3) ***Consolidated structured entities held by the Group***

The Group's consolidated structured entities consist principally of WMP Vehicles that issue and distribute WMPs with respect to which the Group has guaranteed the investors' principal investment and/or return upon maturity of the WMPs, regardless of its actual performance; and a special purpose trust founded by a third party trust company for issuing asset-backed securities by the Group. During the years ended December 31, 2013, 2014 and 2015 and for the three months ended March 31, 2015 and 2016, the Group did not provide any financial support to any of these WMP Vehicles and the special purpose trust.

41 Contingent liabilities and commitments

41.1 *Lawsuits and claims*

The Group was involved in a number of lawsuits and claims during its normal business operations. Based on consultation with its legal advisors, the Group expects that the final outcome of these lawsuits and claims would not have a significant impact on the financial position and operating performance of the Group.

(All amounts in millions of RMB unless otherwise stated)

41.2 ***Capital commitments***

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Contracts signed but not executed	963	1,360	828	919
Contracts approved but not signed	649	3,579	1,185	1,425
Total	1,612	4,939	2,013	2,344

41.3 ***Credit commitments***

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Loan commitments				
- With an original maturity of less than 1 year	2,649	920	7,279	1,721
- With an original maturity of 1 year or above	51,152	70,140	159,926	164,740
Subtotal	53,801	71,060	167,205	166,461
Bank acceptance	1,782	6,260	20,739	24,412
Guarantee and letters of guarantee	294	5,813	12,653	16,435
Letters of credit	10	285	2,960	3,962
Unused credit card commitments	58,040	84,626	114,133	125,724
Total	113,927	168,044	317,690	336,994

Loan commitments mainly include unused limits for credit cards issued to customers and general credit facilities. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

(All amounts in millions of RMB unless otherwise stated)

41.4 ***Operating lease commitments***

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Within 1 year	2,806	3,481	3,029	3,500
1 to 2 years	2,327	2,824	2,500	2,629
2 to 3 years	2,119	2,418	2,186	2,290
3 to 5 years	3,212	3,461	3,187	2,838
Over 5 years	3,129	2,416	2,045	1,685
Total	13,593	14,600	12,947	12,942

The Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Within 1 year	2,806	3,481	3,021	3,492
1 to 2 years	2,327	2,824	2,492	2,621
2 to 3 years	2,119	2,418	2,178	2,274
3 to 5 years	3,212	3,461	3,134	2,822
Over 5 years	3,129	2,416	2,045	1,650
Total	13,593	14,600	12,870	12,859

(All amounts in millions of RMB unless otherwise stated)

41.5 ***Collateral***

The Group and the Bank

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at December 31,			As at March 31,
	2013	**2014**	**2015**	**2016**
Debt securities	59,077	108,673	386,319	263,835
Bills	18,961	4,514	8,104	9,944
Total	78,038	113,187	394,423	273,779

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collateral. As at December 31, 2013, 2014 and 2015, and March 31, 2016, the carrying amount of debt securities pledged as collateral amounted to RMB10 billion, RMB15.3 billion, RMB30.5 billion and RMB 73.0 billion, respectively. The pledged debt securities are mainly classified as held-to-maturity investments.

Collateral received

Collateral under loans and advances mainly includes land use rights, buildings, vehicles and certificates of time deposits. The Group has not resold or re-pledged these collateral.

The Group obtains debt securities from counterparties which can be resold or re-pledged as collateral for financial assets held under resale agreements. The fair value of these collateral amounted to RMB1.2 billion, RMB1.9 billion, RMB0.065 billion and RMB1.574 billion as at December 31, 2013, 2014 and 2015, and March 31, 2016 respectively. Such collateral was not sold or repledged as at December 31, 2013, 2014 and 2015; and collateral with fair value of RMB129 million was sold by the Group as at March 31, 2016.

41.6 ***Redemption commitment for government bonds***

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of the treasury bonds have the right to redeem the bonds at any time prior to maturity and the Group is committed to honour such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the par value of the treasury bonds underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

(All amounts in millions of RMB unless otherwise stated)

As at December 31, 2013, 2014 and 2015, and March 31, 2016, the nominal value of treasury bonds the Group was obligated to redeem was RMB59.5 billion, RMB77.0 billion, RMB91.7 billion and RMB92.2 billion respectively. The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

41.7 ***Credit risk weighted amounts for financial guarantees and credit commitments***

The Group and the Bank

	As at December 31,			As at March 31,
	2013	**2014**	**2015**	**2016**
Financial guarantees and credit commitments..........	32,195	55,166	111,347	121,328

The credit risk-weighted figures are amounts calculated in accordance with the CBRC's guidance, and also based on positions of the counterparties and the specifics of remaining maturities. Risk weights applied to contingent liabilities and credit commitments may vary from 0% to 100%.

42 Transfer of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to structured entities. Where the transfers fully or partially qualify for derecognition, the related financial assets will be fully or partially derecognized. If the Group retains substantially all the risks and rewards of ownership of the financial assets, the transfers do not qualify for derecognition and the Group shall continue to recognize these financial assets.

42.1 ***Outright repurchase agreements***

The Group has entered into the following repurchase agreements, and the recourse rights of the counterparties are not limited to the transferred assets.

(All amounts in millions of RMB unless otherwise stated)

The Group and the Bank

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Available-for-sale financial assets	Held-to-maturity investments	Available-for-sale financial assets	Held-to-maturity investments	Available-for-sale financial assets	Held-to-maturity investments	Available-for-sale financial assets	Held-to-maturity investments
Carrying amount of the collateral	—	4,309	598	3,418	—	2,100	51	4,192
Financial assets sold under repurchase agreements	—	(4,106)	(599)	(3,381)	—	(2,002)	(51)	(4,007)

42.2 ***Securitization transactions***

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group may maintain continuing involvement in its transferred assets as it may hold subordinated tranches of the asset-backed securities ("ABS"). The Group recognizes these credit assets in its balance sheet to the extent of its continuing involvement, while derecognizes the remaining parts. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group maintained continuing involvement in the following securitized assets due to its holding of subordinated tranches:

The Group and the Bank

	As at December 31,			As at March 31,
	2013	2014	2015	2016
ABS issued, face value	500	7,300	6,800	6,800
Assets retained by the Group, net	25	298	273	273

43 Segment analysis

43.1 ***Business segment***

The Group manages the business from both a business and geographic perspective. From the business perspective, the Group provides services through four main business segments listed below:

(All amounts in millions of RMB unless otherwise stated)

Personal banking

Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Treasury

This segment covers businesses including deposits and placements with banks and other financial institutions, interbank lending transactions, repurchase and resale transactions, various debt instrument investments, equity instrument investment, investment bank and wealth management products. The issuance of bond securities also falls into this range.

Others

This segment include items that are not attributed to the above segments or can't be allocated on a reasonable basis.

	Year ended December 31, 2013				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	55,446	48,862	137,837	—	242,145
Interest expense to external customers	(91,447)	(9,130)	(2,595)	—	(103,172)
Intersegment net interest income/(expense)	133,266	(11,435)	(121,831)	—	—
Net interest income	97,265	28,297	13,411	—	138,973
Net fee and commission income/(expense)	5,998	(115)	82	—	5,965
Net trading losses	—	—	(209)	—	(209)
Net losses on investment securities	—	—	(252)	—	(252)
Other operating income	479	—	—	278	757
Operating expenses	(79,808)	(12,835)	(8,642)	(181)	(101,466)
Impairment losses on assets	(6,398)	(1,698)	(578)	—	(8,674)
Profit before income tax	17,536	13,649	3,812	97	35,094

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2013				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	979,539	944,182	3,646,415	—	5,570,136
Deferred income tax assets					4,315
Total assets					5,574,451
Segment liabilities	(4,634,682)	(682,977)	(115,745)	—	(5,433,404)
Supplementary information					
Depreciation and amortization	3,927	970	83	—	4,980
Capital expenditure	6,355	1,578	135	—	8,068
Credit commitments	58,040	55,887	—	—	113,927

	Year ended December 31, 2014				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	70,297	55,537	155,946	—	281,780
Interest expense to external customers	(101,108)	(11,164)	(1,692)	—	(113,964)
Intersegment net interest income/(expense)	139,653	(13,112)	(126,541)	—	—
Net interest income	108,842	31,261	27,713	—	167,816
Net fee and commission income	5,969	247	263	—	6,479
Net trading gains	—	—	128	—	128
Net losses on investment securities	—	—	(1,325)	—	(1,325)
Other operating income	424	—	—	353	777
Operating expenses	(88,643)	(12,516)	(12,778)	(189)	(114,126)
Impairment losses on assets	(10,052)	(7,860)	(2,500)	—	(20,412)
Profit before income tax	16,540	11,132	11,501	164	39,337

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2014				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,276,281	1,132,555	3,882,491	—	6,291,327
Deferred income tax assets					6,998
Total assets					6,298,325
Segment liabilities	(5,141,727)	(789,630)	(179,059)	—	(6,110,416)
Supplementary information					
Depreciation and amortization	3,906	991	93	—	4,990
Capital expenditure	7,388	1,866	176	—	9,430
Credit commitments	84,626	83,418	—	—	168,044

	Year ended December 31, 2015				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	82,349	62,900	155,312	—	300,561
Interest expense to external customers	(105,193)	(11,874)	(4,235)	—	(121,302)
Intersegment net interest income/(expense)	142,371	(17,783)	(124,588)	—	—
Net interest income	119,527	33,243	26,489	—	179,259
Net fee and commission income	7,636	405	631	—	8,672
Net trading gains	—	—	275	—	275
Net gains on investment securities	—	—	946	—	946
Other operating income	1,041	—	—	440	1,481
Operating expenses	(96,590)	(13,790)	(12,941)	(289)	(123,610)
Impairment losses on assets	(12,567)	(10,851)	(2,217)	—	(25,635)
Profit before income tax	19,047	9,007	13,183	151	41,388

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2015				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,498,528	1,452,727	4,335,910	—	7,287,165
Deferred income tax assets					9,199
Total assets					7,296,364
Segment liabilities	(5,495,764)	(938,612)	(591,157)	—	(7,025,533)
Supplementary information					
Depreciation and amortization	3,774	953	90	—	4,817
Capital expenditure	4,474	1,130	106	—	5,710
Credit commitments	114,133	203,557	—	—	317,690

	Three months ended March 31, 2015 (unaudited)				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	19,531	15,840	39,863	—	75,234
Interest expense to external customers	(26,840)	(2,481)	(941)	—	(30,262)
Intersegment net interest income/(expense)	36,265	(3,861)	(32,404)	—	—
Net interest income	28,956	9,498	6,518	—	44,972
Net fee and commission income	1,965	(39)	258	—	2,184
Net trading losses	—	—	(139)	—	(139)
Net gains on investment securities	—	—	117	—	117
Other operating income	237	—	—	59	296
Operating expenses	(22,498)	(3,140)	(2,846)	(26)	(28,510)
Impairment losses on assets	(2,629)	(1,857)	(320)	—	(4,806)
Profit before income tax	6,031	4,462	3,588	33	14,114
Depreciation and amortization	946	239	23	—	1,208
Capital expenditure	754	191	18	—	963

(All amounts in millions of RMB unless otherwise stated)

	Three months ended March 31, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	19,625	15,825	36,819	—	72,269
Interest expense to external customers	(23,059)	(2,843)	(4,667)	—	(30,569)
Intersegment net interest income/(expense)	34,662	(4,245)	(30,417)	—	—
Net interest income	31,228	8,737	1,735	—	41,700
Net fee and commission income	2,559	246	158	—	2,963
Net trading gains	—	—	563	—	563
Net gains on investment securities	—	—	2,012	—	2,012
Other operating income	195	—	—	81	276
Operating expenses	(25,164)	(2,852)	(3,051)	(36)	(31,103)
Impairment losses on assets	(2,562)	(1,780)	2,214	—	(2,128)
Profit before income tax	6,256	4,351	3,631	45	14,283

	As at March 31, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,627,777	1,624,937	4,445,741	—	7,698,455
Deferred income tax assets					9,179
Total assets					7,707,634
Segment liabilities	(5,914,262)	(934,661)	(584,907)	—	(7,433,830)
Supplementary information					
Depreciation and amortization	941	164	17	—	1,122
Capital expenditure	885	154	16	—	1,055
Credit commitments	125,724	211,270	—	—	336,994

43.2 ***Geographical segment***

Geographical segments, as defined for management reporting purposes, are as follows:

— Head Office

— "Yangtze River Delta": Shanghai Municipality, Jiangsu Province, Zhejiang Province and Ningbo;

(All amounts in millions of RMB unless otherwise stated)

— "Pearl River Delta: Guangdong Province, Shenzhen, Fujian Province and Xiamen;

— "Bohai Rim": Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and Qingdao;

— the "Central China" region: Shanxi Province, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;

— the "Western China" region: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region, and Guangxi Autonomous Region; and

— the "Northeastern China" region: Liaoning Province, Jilin Province, Heilongjiang Province and Dalian.

	Year ended December 31, 2013								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Interest income from external customers	149,734	17,026	11,629	13,561	21,094	18,607	10,494	—	242,145
Interest expense to external customers	(2,410)	(16,846)	(7,701)	(17,127)	(28,687)	(20,338)	(10,063)	—	(103,172)
Intersegment net interest income/(expense)	(130,275)	17,634	9,337	21,850	40,434	28,156	12,864	—	—
Net interest income	17,049	17,814	13,265	18,284	32,841	26,425	13,295	—	138,973
Net fee and commission income	884	676	948	742	1,125	1,077	513	—	5,965
Net trading losses	(209)	—	—	—	—	—	—	—	(209)
Net losses on investment securities	(252)	—	—	—	—	—	—	—	(252)
Other operating income	35	108	69	81	227	174	63	—	757
Operating expenses	(4,700)	(13,808)	(10,839)	(13,886)	(25,570)	(21,858)	(10,805)	—	(101,466)
Impairment losses on assets	(354)	(1,206)	(770)	(1,331)	(1,861)	(1,490)	(1,662)	—	(8,674)
Profit before income tax	12,453	3,584	2,673	3,890	6,762	4,328	1,404	—	35,094

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2013								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Segment assets	5,933,271	791,085	538,360	871,794	1,538,643	1,187,130	534,066	(5,824,213)	5,570,136
Deferred income tax assets									4,315
Total assets									5,574,451
Segment liabilities	(5,788,892)	(792,011)	(538,745)	(874,553)	(1,540,168)	(1,187,869)	(535,379)	5,824,213	(5,433,404)
Supplementary information									
Depreciation and amortization	562	559	454	624	980	1,266	535	—	4,980
Capital expenditure	730	1,683	670	946	1,418	1,838	783	—	8,068
Credit commitments	7,890	14,660	20,207	15,284	17,918	27,467	10,501	—	113,927

	Year ended December 31, 2014								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Interest income from external customers	167,214	21,213	13,675	16,832	27,537	24,298	11,011	—	281,780
Interest expense to external customers	(873)	(18,918)	(8,795)	(18,552)	(33,107)	(23,451)	(10,268)	—	(113,964)
Intersegment net interest income/(expense)	(141,680)	18,615	11,030	22,746	44,924	30,779	13,586	—	—
Net interest income	24,661	20,910	15,910	21,026	39,354	31,626	14,329	—	167,816
Net fee and commission income	904	751	1,053	706	1,237	1,249	579	—	6,479
Net trading gain/(losses)	153	—	—	(25)	—	—	—	—	128
Net losses on investment securities	(1,325)	—	—	—	—	—	—	—	(1,325)
Other operating income	25	93	90	80	208	236	45	—	777
Operating expenses	(5,178)	(15,589)	(12,443)	(15,178)	(29,479)	(24,935)	(11,324)	—	(114,126)
Impairment losses on assets	(9,247)	(1,497)	(1,138)	(1,338)	(2,502)	(2,310)	(2,380)	—	(20,412)
Profit before income tax	9,993	4,668	3,472	5,271	8,818	5,866	1,249	—	39,337

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2014								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Segment assets	6,447,100	908,128	616,600	1,003,369	1,745,653	1,357,492	567,270	(6,354,285)	6,291,327
Deferred income tax assets									6,998
Total assets									6,298,325
Segment liabilities	(6,258,543)	(909,054)	(616,984)	(1,006,129)	(1,747,179)	(1,358,230)	(568,582)	6,354,285	(6,110,416)
Supplementary information									
Depreciation and amortization	416	647	509	622	1,007	1,251	538	—	4,990
Capital expenditure	1,054	1,925	621	1,484	1,546	2,040	760	—	9,430
Credit commitments	1,247	23,323	30,061	21,270	44,260	37,392	10,491	—	168,044

	Year ended December 31, 2015								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Interest income from external customers	164,060	23,942	16,773	20,841	33,564	29,707	11,674	—	300,561
Interest expense to external customers	(2,646)	(19,708)	(9,072)	(19,071)	(35,857)	(24,987)	(9,961)	—	(121,302)
Intersegment net interest income/(expense)	(140,451)	19,309	10,574	21,281	46,307	30,530	12,450	—	—
Net interest income	20,963	23,543	18,275	23,051	44,014	35,250	14,163	—	179,259
Net fee and commission income	1,368	1,047	1,172	1,007	1,689	1,521	868	—	8,672
Net trading gains	275	—	—	—	—	—	—	—	275
Net gains on investment securities	946	—	—	—	—	—	—	—	946
Other operating income	109	134	154	180	367	447	90	—	1,481
Operating expenses	(5,422)	(16,990)	(13,768)	(16,283)	(32,229)	(27,232)	(11,686)	—	(123,610)
Impairment losses on assets	(6,843)	(2,632)	(1,910)	(2,321)	(4,825)	(4,640)	(2,464)	—	(25,635)
Profit before income tax	11,396	5,102	3,923	5,634	9,016	5,346	971	—	41,388

(All amounts in millions of RMB unless otherwise stated)

	As at December 31, 2015								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Segment assets	8,048,947	975,576	657,830	1,227,283	1,963,876	1,477,689	595,761	(7,659,797)	7,287,165
Deferred income tax assets									9,199
Total assets									7,296,364
Segment liabilities	(7,806,743)	(971,774)	(654,551)	(1,224,758)	(1,957,142)	(1,473,935)	(596,427)	7,659,797	(7,025,533)
Supplementary information									
Depreciation and amortization	440	716	494	579	937	1,175	476	—	4,817
Capital expenditure	687	1,325	394	642	944	1,202	516	—	5,710
Credit commitments	879	47,462	45,216	45,441	70,810	83,480	24,402	—	317,690

	Three months ended March 31, 2015 (unaudited)								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Interest income from external customers	40,618	6,112	4,275	5,206	8,345	7,621	3,057	—	75,234
Interest expense to external customers	(721)	(4,964)	(2,251)	(4,858)	(8,691)	(6,151)	(2,626)	—	(30,262)
Intersegment net interest income/(expense)	(32,461)	4,232	2,179	5,126	10,936	6,917	3,071	—	—
Net interest income	7,436	5,380	4,203	5,474	10,590	8,387	3,502	—	44,972
Net fee and commission income	720	239	197	202	359	286	181	—	2,184
Net trading losses	(139)	—	—	—	—	—	—	—	(139)
Net gains on investment securities	117	—	—	—	—	—	—	—	117
Other operating income	(6)	27	33	19	104	91	28	—	296
Operating expenses	(1,581)	(3,917)	(3,055)	(3,780)	(7,368)	(6,145)	(2,664)	—	(28,510)
Impairment losses on assets	(951)	(486)	(331)	(551)	(1,110)	(656)	(721)	—	(4,806)
Profit before income tax	5,596	1,243	1,047	1,364	2,575	1,963	326	—	14,114
Depreciation and amortization	447	108	97	120	229	176	31	—	1,208
Capital expenditure	356	87	77	96	182	140	25	—	963

(All amounts in millions of RMB unless otherwise stated)

	Three months ended March 31, 2016								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Interest income from external customers	41,025	5,526	3,870	4,803	7,752	6,744	2,549	—	72,269
Interest expense to external customers	(4,247)	(4,429)	(2,029)	(4,256)	(8,087)	(5,459)	(2,062)	—	(30,569)
Intersegment net interest income/(expense)	(34,501)	4,542	2,544	5,172	11,775	7,527	2,941	—	—
Net interest income	2,277	5,639	4,385	5,719	11,440	8,812	3,428	—	41,700
Net fee and commission income	542	479	289	414	514	411	314	—	2,963
Net trading gains	548	15	—	—	—	—	—	—	563
Net gains on investment securities	2,012	—	—	—	—	—	—	—	2,012
Other operating income	(220)	46	49	29	112	223	37	—	276
Operating expenses	(1,471)	(4,297)	(3,425)	(3,987)	(8,340)	(6,685)	(2,898)	—	(31,103)
Impairment losses on assets	1,489	(530)	(294)	(580)	(1,039)	(983)	(191)	—	(2,128)
Profit before income tax	5,177	1,352	1,004	1,595	2,687	1,778	690	—	14,283

	As at March 31, 2016								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North eastern China	Eliminations	Total
Segment assets	8,508,514	1,046,904	684,407	1,233,620	2,171,792	1,544,248	615,961	(8,106,991)	7,698,455
Deferred income tax assets									9,179
Total assets									7,707,634
Segment liabilities	(8,246,855)	(1,046,437)	(682,699)	(1,234,730)	(2,170,481)	(1,543,077)	(616,542)	8,106,991	(7,433,830)
Supplementary information									
Depreciation and amortization	150	256	71	148	178	223	96	—	1,122
Capital expenditure	141	240	67	139	168	209	91	—	1,055
Credit commitments	6,150	53,045	62,421	37,511	92,463	62,888	22,516	—	336,994

44 Financial risk management

44.1 *Overview*

To ensure an appropriate level of risk-adjusted return and sufficient capital adequacy, the Group adheres to a risk management strategy of "appropriate risk-taking, appropriate returns and prudent operations", and achieves a decent return through appropriate risk-taking with consideration of size, growth and quality of its businesses.

(All amounts in millions of RMB unless otherwise stated)

The Group is mainly exposed to credit risk, market risk, liquidity risk and operational risk. Market risk includes exchange rate risk and interest rate risk.

This section describes the Group's position with respect to the above risk exposures, and the Group's objectives, policies and processes in managing those risk exposures, and procedures and outcomes of the Group's capital management.

44.2 ***Framework of financial risk management***

The Group manages its risks at four levels, i.e., Board of Directors, senior management, risk management departments at the head office and the branches.

The Group's Board of Directors, the ultimate owner of the Group's risk management, is responsible for determining the Group's risk appetites and risk strategies. The Board of Directors oversees senior management's risk control through its Risk Management Committee and proposes requests and advices for the improvement of risk management and internal risk control. The Risk Management Committee meets regularly to remain current with the Group's risk position and risk management across the Group, makes strategic decisions and streamlines resource allocation, determines the direction and requirements for major risk decisions concerning business transformation and development of the Group, and provides guidance and support to risk management across the Group.

Senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, developing risk management measures and policies, and approving internal rules and procedures for risk management. The Risk Management Committee under the senior management is responsible for reviewing implementation plans for bank-wide risk management strategies and basic policies and rules and procedures for risk management, regularly reviewing risk management status and performance across the Group, and evaluating significant risk issues and discussing solutions.

Under the oversight and guidance of the senior management and its Risk Management Committee, the Risk Management Department at the head office has overall responsibility for the identification, measurement, monitoring, reporting and control of risks across the Group. The Risk Management Department is responsible for centrally managing and coordinating risk management activities across the Group, developing and organising the implementation of risk management framework, policies and relevant rules and procedures, leading the building of bank-wide risk management, assessing the risk management position and performance of relevant departments and branches. Other risk management departments and relevant functional departments perform their respective responsibilities under the bank-wide risk management framework by consistently implementing risk management policies, rules and procedures and processes.

Risk management and internal control committees under the management of tier 1 branches and tier 2 branches are responsible for decision-making within their respective authority limits, organizing plans and procedures to meet their risk management objectives and assessing the risk position and

(All amounts in millions of RMB unless otherwise stated)

organizing risk management activities within their respective jurisdictions. Meanwhile, risk management departments in tier 1 branches and tier 2 branches are responsible for developing risk management rules and measures at their level and overseeing the implementation of risk management policies.

The subsidiary and structured entities consolidated by the Bank are not material, in terms of amount and size. Hence all the analysis in this section is for financial risks of the Group.

44.3 ***Credit risk***

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to fulfill an obligation.

Credit risk exposure mainly arises from loans and investments, and off-balance sheet credit activities.

To effectively recognize, measure, monitor, control and report the credit risk, the Group has designed the organization structure for risk management and established credit granting policies and procedures. The Board and its Risk Management Committee are responsible for determining credit risk strategy and risk appetite, supervising the implementation of the risk appetite and credit risk policies. Senior management and its risk management committee are responsible for considering the methodology and standards of credit rating, examining the strategy and quota of credit risk management, implementing risk strategy and risk appetite determined by the Board. The Risk Management Department is responsible for establishing credit risk management policies, directing credit operations, and examining and monitoring the implementation policies and framework. Each business department and Credit Granting Department is responsible for implementing daily credit risk management policies and standards in their respective function, conducting specific risk controls in pre-lending assessment, loan review, drawn-down approval and post-lending management.

In order to adapt to the changing macroeconomic environment in the related financial period, the Group refined its credit risk management policy and credit risk limits management based on its appetite of prudent and steady risk management. The Group further enhanced its credit risk management policies and the entire process of credit risk controls including pre-lending assessment, credit rating evaluation, credit review and approval, loan drawn-down authorisation and post-lending supervision. In addition, in order to strengthen its credit risk management, the Group focused on identifying, monitoring, analysing and predicting credit exposures to strictly control the associated significant risks, as well as accelerating the disposal of non-performing loans and the upgrading of its system.

(1) *Credit risk measurement*

(a) Loans and advances to customers

The risk on its loan portfolio refers to the risk of uncertain income or loan losses from non-performing loans due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered as a principal credit risk.

(All amounts in millions of RMB unless otherwise stated)

The Group measures and manages the quality of corporate and personal loans and advances in accordance with the CBRC's Guidelines on Risk-based Loan Classification ("the CBRC Guidelines"). The CBRC Guidelines require classification of corporate and personal loans into five categories, namely normal, special mention, sub-standard, doubtful and loss, of which the sub-standard, doubtful and loss categories are non-performing loans.

The five categories are defined as follows:

Normal: Borrowers can honor the terms of their loans. There is no doubt on the borrower's ability to repay the scheduled principal and interest payments on time.

Special Mention: Although there is no doubt on the borrower's ability to repay at this point in time, there exists potential indications that may affect its ability to repay in the future.

Substandard: The borrower's repayment ability is apparently in question. It cannot depend on its normal operating revenue to repay in full the principal and interest. Even when the Group executes the guarantee or forecloses the collateral, there is possibility of some loss.

Doubtful: The borrower cannot repay the principal and interest in full. Even when the Group executes the guarantee or forecloses the collateral, there is possibility of substantial loss.

Loss: After exhausting all possible means of recovery actions or taking the necessary legal actions, there is still no possibility for recovery of principal and interest, or the recovery is negligible.

In order to improve recovery and disposal of non-performing loans, the Group has set up asset recovery departments at various levels to focus on the recovery of non-performing assets, mitigating risks, minimizing loses and improving asset quality.

(b) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arise from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt securities investments by focusing on low-risk debt securities, including government bonds and financial institution bonds. Other debt instruments are mainly wealth management products issued by financial institutions, trust investment plans and assets management plans. The Group maintains its overall credit risk exposure on debt securities and other debt instruments at a low level.

The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, and performs ongoing post-lending monitoring on timely basis.

(All amounts in millions of RMB unless otherwise stated)

(c) Deposits and placements with banks and other financial institutions

The Group manages the credit quality of deposits from, and placements with banks and other financial institutions by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

(2) *Credit risk limit control and mitigation policies*

In accordance with the risk management policies and limits for risk control parameters, the Group's management departments and business departments formulate specific risk management measures, streamline the business process, and decompose and monitor the implementation of the risk control parameters.

In respect of maintaining the quality of credit assets, the Group integrates provisioning, budgeting and other resource allocation policies in formulating mitigation plans for both existing and new NPLs in order to effectively control the growth of NPLs.

For the purpose of minimising risks, the Group requires its borrowers to provide collateral or guarantees where appropriate. The Group has defined rules for the quality of certain collateral by establishing controls and procedures on collateral management. At the same time, the Group reviews the value, structure and legal documentation of collateral on a regular basis to ensure they can meet their intended purposes and market conventions.

(3) *Impairment and provision policies*

The impairment losses of loans are assessed based on the credit risk classification of the loans.

The Group's policy requires that financial assets that are individually significant are reviewed on a regular basis. All assets that are individually significant are assessed for impairment losses on an individual basis at the balance sheet date to determine their impairment provisions. These assessments often take into account collateral held by the Group (including re-assessment of their realisability) and expected recoverable amount of individual assets.

Collective assessment includes: (i) groups of assets that are not individually significant but share similar characteristics; and (ii) losses that have already been incurred but not identified with individual assets, and these assets are assessed using historical experience, empirical judgements and statistical techniques. In view of the short history of the Group and limited historical experience on portfolio losses, the Group will also consider loss experience of other banks, regulatory requirements and guidelines, and the risk characteristics of the Group's loan portfolio in making collective assessment for allowance for impairment losses.

(All amounts in millions of RMB unless otherwise stated)

(4) *Maximum credit risk exposures before considering collaterals or other credit enhancements*

A summary of the maximum credit risk exposures is presented as below:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Deposits with central bank	1,180,246	1,341,911	1,085,043	1,283,485
Deposits with banks and other financial institutions	1,044,604	730,217	324,137	194,782
Placements with banks and other financial institutions	93,482	113,754	200,485	257,721
Financial assets at fair value through profit or loss	4,482	9,898	27,719	75,273
Derivative financial assets	289	426	1,073	1,378
Financial assets held under resale agreements	387,187	557,523	148,868	303,954
Loans and advances to customers	1,463,260	1,832,067	2,412,595	2,604,111
Available-for-sale financial assets-debt instruments	134,345	136,374	127,021	145,039
Held-to-maturity investments	681,604	661,513	684,767	677,436
Investment classified as receivables	454,717	770,480	1,883,498	1,703,584
Other financial assets	36,373	34,978	32,481	42,502
Subtotal	5,480,589	6,189,141	6,927,687	7,289,265
Credit commitments	113,927	168,044	317,690	336,994
Total	5,594,516	6,357,185	7,245,377	7,626,259

The table above presents the Group's maximum credit risk exposures before considering any collateral, netting agreements or other credit enhancements as at December 31, 2013, 2014 and 2015, and March 31, 2016. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

(All amounts in millions of RMB unless otherwise stated)

(5) *Loans and advances to customers*

(a) Loans and advances by geographical region:

The Group

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Head Office	468,891	31%	275,015	15%	287,598	12%	289,432	11%
Central China	225,702	15%	358,344	19%	508,398	20%	554,571	21%
Western China	208,011	14%	343,195	18%	458,173	18%	490,019	18%
Yangtze River Delta	203,389	14%	287,397	15%	396,183	16%	450,338	17%
Bohai Rim	158,776	11%	268,761	14%	363,593	15%	385,649	14%
Pearl River Delta	118,398	8%	198,738	11%	271,485	11%	291,451	11%
Northeastern China	109,438	7%	144,298	8%	186,423	8%	204,294	8%
Total	1,492,605	100%	1,875,748	100%	2,471,853	100%	2,665,754	100%

Geographical segments of the Group, as defined for management reporting purposes, are as follows:

- "Head Office";

- "Yangtze River Delta" refers to Shanghai Municipality, Jiangsu Province, Zhejiang Province and Ningbo;

- "Pearl River Delta" refers to Guangdong Province, Shenzhen, Fujian Province and Xiamen;

- "Bohai Rim" refers to Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province and Qingdao;

- "Central China" refers to Shanxi Province, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;

- "Western China" refers to Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region, The Tibet Autonomous Region, Inner Mongolia Autonomous Region, Guangxi Zhuang Autonomous Region; and

- "Northeastern China" refers to Liaoning Province, Heilongjiang Province, Jilin Province and Dalian.

(All amounts in millions of RMB unless otherwise stated)

(b) Loans and advances by types:

The Group

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans and advances								
Including:								
Corporate loans	708,818	48%	804,316	43%	980,980	40%	1,028,404	38%
Discounted bills	50,609	3%	108,366	6%	268,303	11%	339,267	13%
Personal loans and advances	733,178	49%	963,066	51%	1,222,570	49%	1,298,083	49%
Total	1,492,605	100%	1,875,748	100%	2,471,853	100%	2,665,754	100%

(All amounts in millions of RMB unless otherwise stated)

(c) Loans and advances by industries:

The Group

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans and advances								
Transportation*, storage and postal services	337,320	23%	345,867	19%	356,956	14%	361,480	13%
Manufacturing	98,732	7%	117,350	7%	152,310	6%	162,236	6%
Production and supply of electricity, heating, gas and water	101,758	7%	106,866	6%	134,484	5%	136,123	5%
Financial services	4,848	0%	44,604	2%	86,576	4%	109,191	4%
Wholesale and retail	49,580	3%	50,611	3%	58,722	2%	59,178	2%
Mining	22,953	2%	25,756	1%	41,712	2%	39,035	1%
Real estate	20,064	1%	27,297	1%	41,113	2%	40,936	2%
Construction	15,133	1%	27,532	1%	40,255	2%	45,294	2%
Management of water conservancy, environmental and public facilities	42,944	3%	35,738	2%	31,727	1%	32,485	1%
Other industries	15,486	1%	22,695	1%	37,125	2%	42,446	2%
Subtotal	708,818	48%	804,316	43%	980,980	40%	1,028,404	38%
Discounted Bills	50,609	3%	108,366	6%	268,303	11%	339,267	13%
Personal loans and advances								
Consumer loans								
- Residential mortgage loans	297,846	20%	402,668	21%	577,256	23%	640,359	25%
- Other consumer loans	55,053	4%	108,247	6%	159,683	6%	169,949	6%
Personal business loans	237,486	16%	286,971	15%	304,930	12%	303,460	11%
Micro loans	123,719	8%	134,477	7%	136,207	6%	138,876	5%
Credit card overdraft	19,074	1%	30,703	2%	44,494	2%	45,439	2%
Subtotal	733,178	49%	963,066	51%	1,222,570	49%	1,298,083	49%
Total	1,492,605	100%	1,875,748	100%	2,471,853	100%	2,665,754	100%

* As at December 31, 2013, 2014 and 2015, and March 31, 2016, balances of loans to China Railway Corporation were RMB243,234 million, RMB243,234 million, RMB243,104 million and RMB243,104 million respectively.

(All amounts in millions of RMB unless otherwise stated)

(d) Loans and advances by types of collateral:

The Group

	As at December 31,						As at March 31,	
	2013		2014		2015		2016	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Unsecured loans	429,751	29%	517,465	28%	658,159	26%	695,484	26%
Guaranteed loans	167,997	11%	190,848	10%	217,566	9%	221,970	8%
Collateralized and pledged loans								
Including:								
Loans secured by mortgages	728,981	49%	943,430	50%	1,183,088	48%	1,254,608	47%
Loans secured by pledges	115,267	8%	115,639	6%	144,737	6%	154,425	6%
Discounted bills	50,609	3%	108,366	6%	268,303	11%	339,267	13%
Total	1,492,605	100%	1,875,748	100%	2,471,853	100%	2,665,754	100%

(6) *Loans and advances by overdue and impairment status:*

The Group

	As at December 31,		As at March 31,	
	2013	2014	2015	2016
Corporate loans and advances				
- Neither overdue nor impaired	758,179	907,588	1,240,130	1,357,337
- Overdue but not impaired	366	1,976	2,014	2,067
- Impaired	882	3,118	7,139	8,267
Subtotal	759,427	912,682	1,249,283	1,367,671
Personal loans and advances				
- Neither overdue nor impaired	725,311	952,270	1,206,295	1,280,779
- Overdue but not impaired	1,086	1,917	3,539	4,071
- Impaired	6,781	8,879	12,736	13,233
Subtotal	733,178	963,066	1,222,570	1,298,083
Total	1,492,605	1,875,748	2,471,853	2,665,754

When the principal or interest of any loan is overdue by 1 day, the whole loan is classified as overdue.

(All amounts in millions of RMB unless otherwise stated)

(a) Loans and advances neither overdue nor impaired

The Group classifies its credit assets in accordance with regulatory requirements and criteria, including the CBRC Guidelines. Loans and advances neither overdue nor impaired are classified as follows as per these regulatory requirements and criteria:

The Group

	December 31, 2013		
	Normal	Special mention	Total
Corporate loans and advances	709,427	48,752	758,179
Personal loans and advances	723,623	1,688	725,311
Total	1,433,050	50,440	1,483,490

	December 31, 2014		
	Normal	Special mention	Total
Corporate loans and advances	873,249	34,339	907,588
Personal loans and advances	947,541	4,729	952,270
Total	1,820,790	39,068	1,859,858

	December 31, 2015		
	Normal	Special mention	Total
Corporate loans and advances	1,214,054	26,076	1,240,130
Personal loans and advances	1,200,757	5,538	1,206,295
Total	2,414,811	31,614	2,446,425

(All amounts in millions of RMB unless otherwise stated)

	March 31, 2016		
	Normal	Special mention	Total
Corporate loans and advances	1,333,443	23,894	1,357,337
Personal loans and advances	1,276,209	4,570	1,280,779
Total	2,609,652	28,464	2,638,116

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC Guidelines, as well as additional information on industry and portfolio exposure.

(b) Loans and advances overdue but not impaired

The overdue status are as follows:

The Group

	December 31, 2013			
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	Total
Corporate loans and advances	163	188	15	366
Personal loans and advances	829	254	3	1,086
Total	992	442	18	1,452

	December 31, 2014			
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	Total
Corporate loans and advances	1,273	703	—	1,976
Personal loans and advances	1,231	686	—	1,917
Total	2,504	1,389	—	3,893

(All amounts in millions of RMB unless otherwise stated)

	December 31, 2015			
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	Total
Corporate loans and advances	881	1,133	—	2,014
Personal loans and advances	2,044	1,495	—	3,539
Total	2,925	2,628	—	5,553

	March 31, 2016			
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	Total
Corporate loans and advances	961	1,106	—	2,067
Personal loans and advances	2,264	1,807	—	4,071
Total	3,225	2,913	—	6,138

(c) Impaired loans and advances

Impaired loans and advances by geographical region are as follows:

The Group

	December 31, 2013			December 31, 2014			December 31, 2015			March 31, 2016		
	Amount	Proportion (%)	NPL ratio	Amount	Proportion (%)	NPL ratio	Amount	Proportion (%)	NPL ratio	Amount	Proportion (%)	NPL ratio
Head Office	247	3%	0.05%	366	3%	0.13%	609	3%	0.21%	674	3%	0.23%
Central China	1,616	21%	0.72%	2,147	18%	0.60%	3,647	18%	0.72%	4,223	20%	0.76%
Western China	1,097	14%	0.53%	2,068	17%	0.60%	4,868	25%	1.06%	5,467	25%	1.12%
Yangtze River Delta	1,113	15%	0.55%	1,930	16%	0.67%	2,711	14%	0.68%	2,942	14%	0.65%
Bohai Rim	1,167	15%	0.73%	1,487	12%	0.55%	2,478	12%	0.68%	2,933	14%	0.76%
Pearl River Delta	605	8%	0.51%	995	8%	0.50%	1,914	10%	0.71%	2,052	9%	0.70%
Northeastern China	1,818	24%	1.66%	3,004	26%	2.08%	3,648	18%	1.96%	3,209	15%	1.57%
Total	7,663	100%	0.51%	11,997	100%	0.64%	19,875	100%	0.80%	21,500	100%	0.81%

(All amounts in millions of RMB unless otherwise stated)

Concentration of impaired loans and advances are as follows:

The Group

	December 31, 2013			December 31, 2014			December 31, 2015			March 31, 2016		
	Amount	Proportion (%)	NPL ratio	Amount	Proportion (%)	NPL ratio	Amount	Proportion (%)	NPL ratio	Amount	Proportion (%)	NPL ratio
Corporate loans and advances	882	12%	0.12%	3,118	26%	0.34%	7,139	36%	0.57%	8,267	38%	0.60%
Personal loans and advances												
Consumer loans												
- Residential mortgage loans	274	4%	0.09%	573	5%	0.14%	1,287	6%	0.22%	1,476	7%	0.23%
- Other consumer loans	31	0%	0.06%	152	1%	0.14%	516	3%	0.32%	652	3%	0.38%
Personal business loans	830	11%	0.35%	1,969	16%	0.69%	4,580	23%	1.50%	5,113	24%	1.68%
Micro loans	5,399	70%	4.36%	5,817	49%	4.33%	5,744	29%	4.22%	5,321	25%	3.83%
Credit card overdrafts and others	247	3%	1.29%	368	3%	1.20%	609	3%	1.37%	671	3%	1.48%
Total	7,663	100%	0.51%	11,997	100%	0.64%	19,875	100%	0.80%	21,500	100%	0.81%

(7) *Overdue loans and advances*

Overdue loans and advances by security types and overdue status are as follows:

The Group

	December 31, 2013				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	223	114	89	12	438
Guaranteed loans	1,491	2,686	1,315	103	5,595
Loans secured by mortgages	1,044	1,149	626	25	2,844
Loans secured by pledges	41	92	3	—	136
Discounted bills	1	2	5	—	8
Total	2,800	4,043	2,038	140	9,021

(All amounts in millions of RMB unless otherwise stated)

	December 31, 2014				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	1,029	246	123	15	1,413
Guaranteed loans	1,729	2,628	1,770	79	6,206
Loans secured by mortgages	2,761	2,959	1,221	47	6,988
Loans secured by pledges	354	390	98	—	842
Discounted bills	19	—	—	—	19
Total	5,892	6,223	3,212	141	15,468

	December 31, 2015				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	425	441	215	20	1,101
Guaranteed loans	1,598	3,083	1,857	115	6,653
Loans secured by mortgages	5,619	7,672	2,525	73	15,889
Loans secured by pledges	49	340	443	—	832
Discounted bills	30	—	—	—	30
Total	7,721	11,536	5,040	208	24,505

(All amounts in millions of RMB unless otherwise stated)

	March 31, 2016				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	483	467	257	19	1,226
Guaranteed loans	2,005	2,506	2,022	168	6,701
Loans secured by mortgages	5,831	8,611	3,572	82	18,096
Loans secured by pledges	223	226	565	—	1,014
Discounted bills	95	—	—	—	95
Total	8,637	11,810	6,416	269	27,132

(8) *Rescheduled loans*

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. As of December 31, 2013, 2014, 2015, and March 31, 2016, rescheduled loans and advances of the Group were RMB271 million, RMB250 million, RMB381 million and RMB417 million respectively.

(9) *Deposits and placements with banks and other financial institutions*

The counterparties for deposits and placements with banks and other financial institutions include banks and non-bank financial institutions in Mainland China, Hong Kong and other countries and regions.

The Group collects and analyses information of its counterparties to determine the total credit limit for these counterparties, and monitors their credit risks mainly based on their nature, size and credit rating.

As at December 31, 2013, 2014 and 2015, and March 31, 2016, the counterparties for deposits and placements with banks and non-bank financial institutions were mainly domestic banks, including policy banks and large and medium-size commercial banks.

(10) *Debt instruments*

Credit quality of debt instruments

(All amounts in millions of RMB unless otherwise stated)

(a) Debt instruments neither overdue nor impaired

The Group

	December 31, 2013				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Government bonds	703	70,253	289,310	1,896	362,162
Public sector and quasi-government bonds	—	153	1,270	—	1,423
Financial institution bonds	2,757	53,887	355,882	296,500	709,026
Corporate bonds	1,022	9,074	35,142	5,601	50,839
Asset-backed securities	—	978	—	—	978
Other debt instruments	—	—	—	150,720	150,720
Total	4,482	134,345	681,604	454,717	1,275,148

The Group

	December 31, 2014				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Government bonds	625	54,053	289,952	1,761	346,391
Public sector and quasi-government bonds	—	159	1,270	—	1,429
Financial institution bonds	1,793	57,550	317,717	297,899	674,959
Corporate bonds	6,006	11,073	46,656	7,749	71,484
Certificates of deposits	1,474	—	—	—	1,474
Asset-backed securities	—	13,539	5,918	4,487	23,944
Other debt instruments	—	—	—	460,856	460,856
Total	9,898	136,374	661,513	772,752	1,580,537

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2015				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Government bonds	120	36,901	357,101	2,217	396,339
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	1,949	55,186	274,937	1,076,413	1,408,485
Corporate bonds	5,057	11,654	47,844	4,903	69,458
Certificates of deposits	16,454	—	2,072	—	18,526
Asset-backed securities	—	23,280	2,243	48,598	74,121
Asset management plans	4,139	—	—	—	4,139
Other debt instruments	—	—	—	755,307	755,307
Total	27,719	127,021	684,767	1,887,438	2,726,945

The Group

	March 31, 2016				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Government bonds	975	42,645	358,403	2,743	404,766
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	6,633	67,810	267,409	1,075,630	1,417,482
Corporate bonds	7,867	11,058	46,957	4,250	70,132
Certificates of deposits	53,830	—	1,997	—	55,827
Asset-backed securities	—	23,526	2,100	64,512	90,138
Asset management plans	5,968	—	—	—	5,968
Other debt instruments	—	—	—	559,694	559,694
Total	75,273	145,039	677,436	1,706,829	2,604,577

(All amounts in millions of RMB unless otherwise stated)

As at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group did not have any debt instruments assessed as impaired individually. As at December 31, 2013, 2014 and 2015, and March 31, 2016, the allowance for impairment losses assessed collectively for investment classified as receivables was nil, RMB2.3 billion, RMB3.9 billion and RMB3.2 billion, respectively.

(b) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the bonds portfolio held. The ratings are obtained from major rating agencies where the issuers of the bonds are located. The carrying amounts of bonds investments analyzed by rating as at the end of the reporting period are as follows:

The Group

	December 31, 2013					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	362,162	—	—	—	—	362,162
Public sector and quasi-government bonds	1,423	—	—	—	—	1,423
Financial institution bonds	702,261	5,733	98	872	62	709,026
Corporate bonds	100	41,947	5,746	3,046	—	50,839
Asset-backed securities	—	898	—	80	—	978
Other debt instruments	150,720	—	—	—	—	150,720
Total	1,216,666	48,578	5,844	3,998	62	1,275,148

The Group

	December 31, 2014					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	346,090	301	—	—	—	346,391
Public sector and quasi-government bonds	1,429	—	—	—	—	1,429
Financial institution bonds	659,976	11,659	3,067	153	104	674,959
Corporate bonds	11,033	56,432	3,857	162	—	71,484
Certificates of deposits	1,474	—	—	—	—	1,474
Asset-backed securities	4,487	18,071	776	610	—	23,944
Other debt instruments	460,856	—	—	—	—	460,856
Total	1,485,345	86,463	7,700	925	104	1,580,537

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2015					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	302,035	94,304	—	—	—	396,339
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,388,316	12,393	6,030	951	795	1,408,485
Corporate bonds	9,925	54,982	4,422	119	10	69,458
Certificates of deposits	18,526	—	—	—	—	18,526
Asset-backed securities	48,798	19,147	6,176	—	—	74,121
Asset management plans	4,139	—	—	—	—	4,139
Other debt instruments	755,307	—	—	—	—	755,307
Total	2,527,616	180,826	16,628	1,070	805	2,726,945

	March 31, 2016					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	290,197	114,569	—	—	—	404,766
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,395,510	15,926	3,325	1,339	1,382	1,417,482
Corporate bonds	10,305	55,372	3,468	785	202	70,132
Certificates of deposits	55,827	—	—	—	—	55,827
Asset-backed securities	64,152	19,179	6,575	232	—	90,138
Asset management plans	5,968	—	—	—	—	5,968
Other debt instruments	559,694	—	—	—	—	559,694
Total	2,382,223	205,046	13,368	2,356	1,584	2,604,577

(i) Unrated debt instruments held by the Group are bonds issued by policy banks and the Chinese government, and other debt instruments such as trust investment plans, asset management plans and wealth management plans issued by financial institutions, which the principal and income are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

(11) The credit risk exposure of financial assets mainly concentrates in Mainland China.

(All amounts in millions of RMB unless otherwise stated)

44.4 ***Liquidity risk***

Liquidity risk is the risk that the Group is unable to obtain adequate funds in time or obtain at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio, even though the Group is solvent. In managing its liquidity risk, the Group aims to maintain sufficient liquidity in accordance with its business development strategies to ensure it is able to meet its obligations when they fall due and meet the needs of its business development, and ensure the availability of sufficient realisable assets and ability to raise funds to manage emergencies.

The Group is exposed to liquidity risk in funding credit activities, transactions and investments, and in managing liquidity positions. The Group's liquidity is mainly subject to the maturity structure of its assets and liabilities and changes in banking policies, e.g., changes in loan-to-deposit ratio and statutory reserve ratio requirements.

The Group manages its liquidity risk in accordance with regulatory requirements and by adopting a prudent approach. The Asset and Liability Management Department and Risk Management Department, among others, are responsible for formulating and driving the implementation of liquidity risk management policies, monitoring the changes to the Group's working capital, measuring and assessing liquidity risk, estimating the trend of liquidity risk, and recommending adjustments to its working capital structure, so as to ensure that its liquidity and liquidity ratios are maintained at proper levels and that the Group is able to meet its funding needs.

The Group is mainly funded by retail deposits, which is considered a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as cash and deposits with banks and other financial institutions, government bonds, policy banks bonds. Management considers the Group's overall liquidity risk is low.

(All amounts in millions of RMB unless otherwise stated)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The table below summarizes the maturity analysis of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period.

The Group

	As at December 31, 2013								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	57,614	—	—	—	124,075	—	1,044,019	1,225,708
Deposits with banks and other financial institutions	—	2,929	22,945	100,857	387,589	530,284	—	—	1,044,604
Placements with banks and other financial institutions	—	—	427	553	17,019	75,483	—	—	93,482
Financial assets at fair value through profit or loss	—	—	410	878	1,120	2,074	—	—	4,482
Derivative financial assets	—	—	56	81	129	23	—	—	289
Financial assets held under resale agreements	—	—	118,059	151,836	111,667	5,625	—	—	387,187
Loans and advances to customers	2,365	—	47,339	110,489	413,286	375,691	514,090	—	1,463,260
Available-for-sale financial assets	—	—	1,232	458	22,453	83,236	29,193	66	136,638
Held-to-maturity investments	—	—	290	2,600	38,764	302,895	337,055	—	681,604
Investment classified as receivables	—	—	6,145	2,704	48,201	101,667	296,000	—	454,717
Other financial assets	157	159	11,029	12,507	12,028	492	1	—	36,373
Total financial assets	2,522	60,702	207,932	382,963	1,052,256	1,601,545	1,176,339	1,044,085	5,528,344
Deposits from banks and other financial institutions	—	16,700	715	5,808	1,691	246	—	—	25,160
Placements from banks and other financial institutions	—	—	11,144	905	206	—	—	—	12,255
Derivative financial liabilities	—	—	65	85	130	24	—	—	304
Financial assets sold under repurchase agreements	—	—	69,088	5,556	850	—	—	—	75,494
Customer deposits	—	2,405,393	303,787	724,199	1,405,057	368,032	—	—	5,206,468
Other financial liabilities	—	9,130	29,746	20,620	26,656	19,800	—	—	105,952
Total financial liabilities	—	2,431,223	414,545	757,173	1,434,590	388,102	—	—	5,425,633
Net liquidity	2,522	(2,370,521)	(206,613)	(374,210)	(382,334)	1,213,443	1,176,339	1,044,085	102,711

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at December 31, 2014								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	102,114	—	—	124,075	—	—	1,163,570	1,389,759
Deposits with banks and other financial institutions	—	2,909	30,800	84,220	359,975	252,313	—	—	730,217
Placements with banks and other financial institutions	—	—	1,781	5,510	18,152	88,311	—	—	113,754
Financial assets at fair value through profit or loss	—	—	829	1,598	5,931	896	644	—	9,898
Derivative financial assets	—	—	97	127	179	23	—	—	426
Financial assets held under resale agreements	—	—	321,084	104,077	129,362	3,000	—	—	557,523
Loans and advances to customers	5,680	—	67,054	170,338	520,455	450,809	617,731	—	1,832,067
Available-for-sale financial assets	—	—	714	482	12,558	97,968	26,543	66	138,331
Held-to-maturity investments	—	—	5,875	14,039	59,481	277,449	304,669	—	661,513
Investment classified as receivables	—	—	—	5,318	187,813	364,689	212,660	—	770,480
Other financial assets	260	177	10,346	11,551	12,378	266	—	—	34,978
Total financial assets	5,940	105,200	438,580	397,260	1,430,359	1,535,724	1,162,247	1,163,636	6,238,946
Deposits from banks and other financial institutions	—	27,770	1,809	2,559	1,958	6,523	—	—	40,619
Placements from banks and other financial institutions	—	—	16,340	872	1,052	—	—	—	18,264
Derivative financial liabilities	—	—	88	126	183	23	—	—	420
Financial assets sold under repurchase agreements	—	—	99,796	8,200	7,922	—	—	—	115,918
Customer deposits	—	2,556,308	365,845	849,816	1,556,530	474,447	—	—	5,802,946
Other financial liabilities	—	11,150	36,112	24,782	26,903	21,609	—	—	120,556
Total financial liabilities	—	2,595,228	519,990	886,355	1,594,548	502,602	—	—	6,098,723
Net liquidity	5,940	(2,490,028)	(81,410)	(489,095)	(164,189)	1,033,122	1,162,247	1,163,636	140,223

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at December 31, 2015								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	63,482	—	—	—	—	—	1,067,749	1,131,231
Deposits with banks and other financial institutions	—	6,487	78,553	61,810	82,806	94,481	—	—	324,137
Placements with banks and other financial institutions	—	—	34,043	3,805	38,638	123,999	—	—	200,485
Financial assets at fair value through profit or loss	—	—	9,143	6,572	11,822	182	—	—	27,719
Derivative financial assets	—	—	207	172	662	32	—	—	1,073
Financial assets held under resale agreements	—	—	112,729	20,764	14,375	1,000	—	—	148,868
Loans and advances to customers	8,826	—	111,184	245,813	785,932	513,034	747,806	—	2,412,595
Available-for-sale financial assets	—	246,204	546	3,172	40,944	81,394	18,357	66	390,683
Held-to-maturity investments	—	—	837	26,944	47,094	306,899	302,993	—	684,767
Investment classified as receivables	—	—	16,641	191,562	308,834	513,616	852,845	—	1,883,498
Other financial assets	448	110	9,172	10,652	11,811	288	—	—	32,481
Total financial assets	9,274	316,283	373,055	571,266	1,342,918	1,634,925	1,922,001	1,067,815	7,237,537
Deposits from banks and other financial institutions	—	41,759	40	7,037	41,957	558	—	—	91,351
Placements from banks and other financial institutions	—	—	29,151	1,872	39,836	—	—	—	70,859
Derivative financial liabilities	—	—	237	167	598	37	—	—	1,039
Financial assets sold under repurchase agreements	—	—	182,062	50,619	162,136	—	—	—	394,817
Financial liabilities at fair value through profit or loss	—	—	142	418	3,579	—	—	—	4,139
Customer deposits	—	2,728,957	388,150	1,008,528	1,713,012	466,367	—	—	6,305,014
Debt securities issued	—	—	—	—	—	—	24,973	—	24,973
Other financial liabilities	—	12,532	24,634	27,385	30,065	24,802	—	—	119,418
Total financial liabilities	—	2,783,248	624,416	1,096,026	1,991,183	491,764	24,973	—	7,011,610
Net liquidity	9,274	(2,466,965)	(251,361)	(524,760)	(648,265)	1,143,161	1,897,028	1,067,815	225,927

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at March 31, 2016								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	224,290	—	—	—	—	—	1,105,526	1,329,816
Deposits with banks and other financial institutions	—	11,325	12,546	31,123	68,940	70,848	—	—	194,782
Placements with banks and other financial institutions	—	—	56,998	30,665	51,944	118,114	—	—	257,721
Financial assets at fair value through profit or loss	—	—	11,924	16,528	44,197	1,770	854	—	75,273
Derivative financial assets	—	—	660	232	451	35	—	—	1,378
Financial assets held under resale agreements	—	—	285,011	8,316	10,627	—	—	—	303,954
Loans and advances to customers	10,287	—	107,004	340,981	817,782	526,873	801,184	—	2,604,111
Available-for-sale financial assets	—	157,356	12,458	63,806	102,793	87,051	29,992	66	453,522
Held-to-maturity investments	—	—	8,646	13,890	36,721	312,976	305,203	—	677,436
Investment classified as receivables	—	—	82,316	131,312	150,884	532,343	806,729	—	1,703,584
Other financial assets	503	74	11,699	14,467	15,457	302	—	—	42,502
Total financial assets	10,790	393,045	589,262	651,320	1,299,796	1,650,312	1,943,962	1,105,592	7,644,079
Deposits from banks and other financial institutions	—	69,408	5,648	15,902	105,038	675	—	—	196,671
Placements from banks and other financial institutions	—	—	25,210	910	49,000	—	—	—	75,120
Derivative financial liabilities	—	—	349	210	493	42	—	—	1,094
Financial assets sold under repurchase agreements	—	—	67,471	13,306	194,286	—	—	—	275,063
Financial liabilities at fair value through profit or loss	—	129	647	4,135	1,185	—	—	—	6,096
Customer deposits	—	2,806,331	326,097	531,615	2,590,080	478,258	—	—	6,732,381
Debt securities issued	—	—	—	—	—	—	24,974	—	24,974
Other financial liabilities	—	20,072	18,533	12,937	35,626	21,306	—	—	108,474
Total financial liabilities	—	2,895,940	443,955	579,015	2,975,708	500,281	24,974	—	7,419,873
Net liquidity	10,790	(2,502,895)	145,307	72,305	(1,675,912)	1,150,031	1,918,988	1,105,592	224,206

(All amounts in millions of RMB unless otherwise stated)

Analysis of the undiscounted contractual cash flows

The table below presents the cash flows of the Group's financial assets and financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the undiscounted contractual cash flows. The Group manages its inherent liquidity risk in the short term based on the expected undiscounted cash flows.

The Group

	December 31, 2013								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	—	57,614	—	2,024	4,518	129,331	—	1,044,019	1,237,506
Deposits with banks and other financial institutions	—	2,948	23,114	114,688	418,101	563,885	—	—	1,122,736
Placements with banks and other financial institutions	—	—	431	2,029	21,390	87,915	—	—	111,765
Financial assets at fair value through profit or loss	—	—	422	905	1,239	2,233	—	—	4,799
Financial assets held under resale agreements	—	—	120,970	156,592	115,449	6,511	—	—	399,522
Loans and advances to customers	2,439	—	52,754	130,785	467,762	541,496	715,165	—	1,910,401
Available-for-sale financial assets	—	—	1,331	1,729	26,407	96,170	30,626	66	156,329
Held-to-maturity investments	—	—	1,975	6,086	59,382	381,483	440,876	—	889,802
Investment classified as receivables	—	—	6,383	8,531	64,922	161,184	332,675	—	573,695
Other financial assets	—	140	10	458	355	261	—	—	1,224
Total non-derivative financial assets	2,439	60,702	207,390	423,827	1,179,525	1,970,469	1,519,342	1,044,085	6,407,779
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	16,778	717	5,831	1,727	344	—	—	25,397
Placements from banks and other financial institutions	—	—	11,153	912	208	—	—	—	12,273
Financial assets sold under repurchase agreements	—	—	69,441	5,688	857	—	—	—	75,986
Customer deposits	—	2,409,468	312,176	747,252	1,459,939	421,391	—	—	5,350,226
Other financial liabilities	—	4,977	21,380	1,261	850	648	—	—	29,116
Total non-derivative financial liabilities	—	2,431,223	414,867	760,944	1,463,581	422,383	—	—	5,492,998
Net liquidity	2,439	(2,370,521)	(207,477)	(337,117)	(284,056)	1,548,086	1,519,342	1,044,085	914,781

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2014								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	—	102,114	—	2,088	127,874	—	—	1,163,570	1,395,646
Deposits with banks and other financial institutions	—	2,946	30,890	93,404	382,573	265,526	—	—	775,339
Placements with banks and other financial institutions	—	—	1,794	7,242	23,197	99,094	—	—	131,327
Financial assets at fair value through profit or loss	—	—	885	1,649	6,210	1,101	717	—	10,562
Financial assets held under resale agreements	—	—	323,259	106,338	132,683	3,221	—	—	565,501
Loans and advances to customers	5,807	—	74,123	195,420	590,703	666,776	911,969	—	2,444,798
Available-for-sale financial assets	—	—	1,019	1,314	17,337	111,598	29,430	66	160,764
Held-to-maturity investments	—	—	7,825	17,623	79,849	352,499	405,509	—	863,305
Investment classified as receivables	—	—	312	12,651	219,436	444,371	241,114	—	917,884
Other financial assets	—	140	—	491	655	169	—	—	1,455
Total non-derivative financial assets	5,807	105,200	440,107	438,220	1,580,517	1,944,355	1,588,739	1,163,636	7,266,581
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	27,778	1,832	2,807	2,148	7,298	—	—	41,863
Placements from banks and other financial institutions	—	—	16,353	877	1,068	—	—	—	18,298
Financial assets sold under repurchase agreements	—	—	99,974	8,302	8,140	—	—	—	116,416
Customer deposits	—	2,561,742	376,292	877,569	1,615,397	537,959	—	—	5,968,959
Other financial liabilities	—	5,708	26,046	1,228	813	580	—	—	34,375
Total non-derivative financial liabilities	—	2,595,228	520,497	890,783	1,627,566	545,837	—	—	6,179,911
Net liquidity	5,807	(2,490,028)	(80,390)	(452,563)	(47,049)	1,398,518	1,588,739	1,163,636	1,086,670

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2015								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	—	63,482	—	532	—	—	—	1,067,749	1,131,763
Deposits with banks and other financial institutions	—	6,506	79,723	62,659	84,034	95,632	—	—	328,554
Placements with banks and other financial institutions	—	—	34,071	6,236	45,529	132,200	—	—	218,036
Financial assets at fair value through profit or loss	—	—	9,265	6,696	12,127	207	—	—	28,295
Financial assets held under resale agreements	—	—	112,850	21,025	14,734	1,005	—	—	149,614
Loans and advances to customers	9,207	—	121,573	265,942	859,694	731,591	1,030,851	—	3,018,858
Available-for-sale financial assets	—	246,204	890	3,800	44,954	89,627	20,062	66	405,603
Held-to-maturity investments	—	—	2,505	30,225	67,528	382,376	401,395	—	884,029
Investment classified as receivables	—	—	18,395	206,748	359,618	689,091	1,030,693	—	2,304,545
Other financial assets	—	91	—	525	870	158	—	—	1,644
Total non-derivative financial assets	9,207	316,283	379,272	604,388	1,489,088	2,121,887	2,483,001	1,067,815	8,470,941
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	41,773	43	7,096	43,286	602	—	—	92,800
Placements from banks and other financial institutions	—	—	29,163	1,881	41,133	—	—	—	72,177
Financial assets sold under repurchase agreements	—	—	182,205	51,021	167,234	—	—	—	400,460
Financial liabilities at fair value through profit or loss	—	—	142	421	3,638	—	—	—	4,201
Customer deposits	—	2,731,602	397,718	1,040,178	1,769,311	529,486	—	—	6,468,295
Debt securities issued	—	—	—	—	1,125	4,500	30,625	—	36,250
Other financial liabilities	—	9,873	15,930	1,015	779	543	—	—	28,140
Total non-derivative financial liabilities	—	2,783,248	625,201	1,101,612	2,026,506	535,131	30,625	—	7,102,323
Net liquidity	9,207	(2,466,965)	(245,929)	(497,224)	(537,418)	1,586,756	2,452,376	1,067,815	1,368,618

(All amounts in millions of RMB unless otherwise stated)

The Group

	March 31, 2016								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	—	224,290	—	615	—	—	—	1,105,526	1,330,431
Deposits with banks and other financial institutions	—	11,344	12,741	31,541	70,032	71,618	—	—	197,276
Placements with banks and other financial institutions	—	—	57,052	33,176	57,997	123,343	—	—	271,568
Financial assets at fair value through profit or loss	—	—	11,962	16,717	44,944	1,969	1,003	—	76,595
Financial assets held under resale agreements	—	—	285,322	8,487	10,858	—	—	—	304,667
Loans and advances to customers	10,339	—	116,708	360,284	888,020	730,975	1,065,397	—	3,171,723
Available-for-sale financial assets	—	157,356	12,894	64,536	106,897	95,620	31,871	66	469,240
Held-to-maturity investments	—	—	9,966	18,381	55,920	388,249	402,781	—	875,297
Investment classified as receivables	—	—	87,463	147,526	194,972	701,294	977,832	—	2,109,087
Other financial assets	—	55	—	1,396	3,959	140	—	—	5,550
Total non-derivative financial assets	10,339	393,045	594,108	682,659	1,433,599	2,113,208	2,478,884	1,105,592	8,811,434
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	69,447	5,691	16,324	108,217	726	—	—	200,405
Placements from banks and other financial institutions	—	—	25,216	915	50,571	—	—	—	76,702
Financial assets sold under repurchase agreements	—	—	67,604	13,484	200,474	—	—	—	281,562
Financial liabilities at fair value through profit or loss	—	129	647	4,160	1,203	—	—	—	6,139
Customer deposits	—	2,808,923	333,683	544,536	2,661,745	536,133	—	—	6,885,020
Debt securities issued	—	—	—	—	1,125	4,500	30,625	—	36,250
Other financial liabilities	—	17,441	11,078	1,711	686	516	—	—	31,432
Total non-derivative financial liabilities	—	2,895,940	443,919	581,130	3,024,021	541,875	30,625	—	7,517,510
Net liquidity	10,339	(2,502,895)	150,189	101,529	(1,590,422)	1,571,333	2,448,259	1,105,592	1,293,924

(All amounts in millions of RMB unless otherwise stated)

Cash flow of derivative financial instruments

Derivative financial instruments settled on a net basis

The fair values of the Group's derivative financial instruments that will be settled on a net basis are primarily related to changes in interest rates. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

The Group

	December 31, 2013					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	—	(1)	(2)	(1)	—	(4)

	December 31, 2014					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	(2)	1	(3)	—	—	(4)

	December 31, 2015					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	(1)	—	(2)	(2)	—	(5)

	March 31, 2016					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	(6)	(1)	(21)	(117)	—	(145)

(All amounts in millions of RMB unless otherwise stated)

Derivative financial instruments settled on a gross basis

The fair values of the Group's derivative financial instruments that will be settled on a gross basis are primarily related to changes in foreign exchange rates and interest rates. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

The Group

	December 31, 2013					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
- Cash inflow	25,020	19,164	23,794	61	—	68,039
- Cash outflow	(25,029)	(19,168)	(23,793)	(61)	—	(68,051)
Total	(9)	(4)	1	—	—	(12)

	December 31, 2014					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
- Cash inflow	31,262	31,830	57,005	741	—	120,838
- Cash outflow	(31,265)	(31,828)	(57,023)	(734)	—	(120,850)
Total	(3)	2	(18)	7	—	(12)

	December 31, 2015					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
- Cash inflow	55,214	32,263	63,927	5,139	—	156,543
- Cash outflow	(55,200)	(32,263)	(63,849)	(5,108)	—	(156,420)
Total	14	—	78	31	—	123

(All amounts in millions of RMB unless otherwise stated)

	March 31, 2016					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
- Cash inflow	151,060	40,700	258,623	1,594	—	451,977
- Cash outflow	(150,757)	(40,677)	(258,483)	(1,587)	—	(451,504)
Total	303	23	140	7	—	473

Credit commitments

The tables below summarize the amounts of these off-balance sheet items by remaining maturity:

The Group

	December 31, 2013			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	16,114	37,687	—	53,801
Bank acceptance	1,782	—	—	1,782
Guarantee and letters of guarantee	294	—	—	294
Letters of credit	10	—	—	10
Unused credit card commitments	58,040	—	—	58,040
Total	76,240	37,687	—	113,927

	December 31, 2014			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	11,853	55,388	3,819	71,060
Bank acceptance	6,260	—	—	6,260
Guarantee and letters of guarantee	3,530	2,283	—	5,813
Letters of credit	285	—	—	285
Unused credit card commitments	84,626	—	—	84,626
Total	106,554	57,671	3,819	168,044

(All amounts in millions of RMB unless otherwise stated)

	December 31, 2015			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	48,453	92,370	26,382	167,205
Bank acceptance	20,739	—	—	20,739
Guarantee and letters of guarantee	9,555	3,098	—	12,653
Letters of credit	2,916	44	—	2,960
Unused credit card commitments	114,133	—	—	114,133
Total	195,796	95,512	26,382	317,690

	March 31, 2016			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	36,617	107,017	22,827	166,461
Bank acceptance	24,412	—	—	24,412
Guarantee and letters of guarantee	15,484	951	—	16,435
Letters of credit	3,872	90	—	3,962
Unused credit card commitments	125,724	—	—	125,724
Total	206,109	108,058	22,827	336,994

44.5 ***Market risk***

Market risk refers to the risk of losses to the Group's on- and off-balance sheet activities arising from unfavourable changes on market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The Group is primarily exposed to interest rate risk and exchange rate risk in the course of business. In managing its market risks, the Group aims to build a sound market risk management system, drive the effective and appropriate adjustments of its maturity, currency and interest rate structures, ensure the Group operates within an acceptable level of market risk, and achieve the steady and sustainable improvements to spread income and shareholders' value.

The Group adopts a centralized approach in market risk management process, including identification, measurement, monitoring and control. At present, the Group has established its basic rules and procedures for market risk management, separation of banking and trading books based on the purpose of transactions, and valuation of financial assets. The Group applies appropriate measures and methods to identify, measure, monitor and control market risks on its banking book and trading book. Financial assets are revalued and their risks re-measured on a regular basis in accordance with the Group's financial asset valuation rules and market risk measurement criteria. The middle office monitors transactions on a real-time basis, including the implementation of trading strategies and compliance with the trading procedures and standards.

(All amounts in millions of RMB unless otherwise stated)

The Group is also exposed to market risk on its derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Underlying assets of money market funds include notice deposits, short-term bills, time deposits within 1 year, certificates of deposits and other financial instruments with high liquidity tradable in money markets as permitted by the China Securities Regulatory Commission (the "CSRC") and PBOC. Fair value of money market funds becomes favourable or unfavourable as a result of fluctuation in market price of invested financial instruments.

Techniques for measuring and limits for market risks

Trading book

Market risk on the trading book mainly arises from the changes in value of financial products in the trading book due to changes of market interest rates and exchange rates.

The Group assesses, measures and monitors the interest rate risk on its trading book using a variety of techniques, including duration, present value of a basis point ("PVBP"), stress testing and scenario analysis, and makes improvement where appropriate according to the assessment results to its management of interest rate risk on the financial instruments in the trading book. In addition, the Group enforces strict segregation between trading and non-trading roles, and has set up a risk management middle office in investment and trading departments such as Financial Market Department to monitor the limits on various transactions, including re-valuation of market value of the trading book, and monitoring and reporting interest rate risk on the trading book.

Banking book

Interest rate risk on the banking book arises from the risk of impact on the Group's income due to unfavourable changes in market interest rates or statutory interest rates, mainly including risks arising from repricing.

The Group monitors the interest rate sensitivity gap mainly through repricing gap analysis. The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch, and makes adjustments to refine the structure and bridge the interest rate risk gap by assessing potential changes of interest rates.

Meanwhile, the Group closely monitors the trends of interest rates in RMB and foreign currencies and makes adjustments to its deposit and lending interest rates in RMB and foreign currencies in a timely manner in accordance with the market interest rate changes to minimize its interest rate risk.

(All amounts in millions of RMB unless otherwise stated)

Sensitivity analysis on net interest income

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that all interest rates move by the same margin and the structure of financial assets and liabilities held at the period end remains unchanged, and does not take changes in customer behaviour, benchmark interest rates or any prepayment options on debt securities into consideration. On the assumption that the RMB yield and foreign currency yield move in parallel, the Group calculates changes in net interest income of the current year and monitors the changes in net interest income against its annual budget for net interest income.

The table below shows the potential impact on the Group's net interest income by an upward and a downward parallel shift of interest rates by 100 basis points. The actual circumstances may differ from the assumptions so that the impact on the net interest income as shown in the following analysis may different from the actual outcome.

The Group

	Increase/(Decrease) in net interest income			
	As at December 31,		As at March 31,	
	2013	2014	2015	2016
Upward parallel shift of 100 bps for yield curves	(5,103)	(5,108)	(7,112)	(7,096)
Downward parallel shift of 100 bps for yield curves	5,103	5,108	7,112	7,096

Interest rate risk

The Group's interest rate exposures are as follows. The financial assets and financial liabilities are stated at their carrying amounts based on the earlier of their contractual repricing date or maturity date.

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2013						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,055,477	—	—	124,075	—	46,156	1,225,708
Deposits with banks and other financial institutions	242,334	189,857	354,279	258,134	—	—	1,044,604
Placements with banks and other financial institutions	427	65,774	6,461	20,820	—	—	93,482
Financial assets at fair value through profit or loss	902	1,592	922	1,066	—	—	4,482
Derivative financial assets	—	—	—	—	—	289	289
Financial assets held under resale agreements	118,384	151,836	111,667	5,300	—	—	387,187
Loans and advances to customers	868,991	195,075	370,371	19,045	9,778	—	1,463,260
Available-for-sale financial assets	4,477	16,349	20,256	68,516	24,747	2,293	136,638
Held-to-maturity investments	14,150	48,504	115,028	204,270	299,652	—	681,604
Investment classified as receivables	11,144	110,671	243,002	89,900	—	—	454,717
Other financial assets	—	—	—	—	—	36,373	36,373
Total financial assets	2,316,286	779,658	1,221,986	791,126	334,177	85,111	5,528,344
Deposits from banks and other financial institutions	17,415	5,808	1,691	246	—	—	25,160
Placements from banks and other financial institutions	11,144	905	206	—	—	—	12,255
Derivative financial liabilities	—	—	—	—	—	304	304
Financial assets sold under repurchase agreements	69,088	5,556	850	—	—	—	75,494
Customer deposits	2,708,720	724,199	1,405,057	368,032	—	460	5,206,468
Other financial liabilities	31	13	82	103	—	105,723	105,952
Total financial liabilities	2,806,398	736,481	1,407,886	368,381	—	106,487	5,425,633
Interest rate risk gap	(490,112)	43,177	(185,900)	422,745	334,177	(21,376)	102,711

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2014						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,217,079	—	124,075	—	—	48,605	1,389,759
Deposits with banks and other financial institutions	88,210	144,970	356,774	140,263	—	—	730,217
Placements with banks and other financial institutions	1,781	58,125	6,797	47,051	—	—	113,754
Financial assets at fair value through profit or loss	829	1,598	5,931	896	644	—	9,898
Derivative financial assets	—	—	—	—	—	426	426
Financial assets held under resale agreements	321,409	104,077	129,037	3,000	—	—	557,523
Loans and advances to customers	1,026,480	139,198	558,876	96,363	11,150	—	1,832,067
Available-for-sale financial assets	12,876	14,519	6,525	77,513	24,941	1,957	138,331
Held-to-maturity investments	21,127	53,132	119,202	187,151	280,901	—	661,513
Investment classified as receivables	8,311	110,772	382,115	256,129	13,153	—	770,480
Other financial assets	—	—	—	—	—	34,978	34,978
Total financial assets	2,698,102	626,391	1,689,332	808,366	330,789	85,966	6,238,946
Deposits from banks and other financial institutions	29,579	2,559	1,958	6,523	—	—	40,619
Placements from banks and other financial institutions	16,340	872	1,052	—	—	—	18,264
Derivative financial liabilities	—	—	—	—	—	420	420
Financial assets sold under repurchase agreements	99,796	8,200	7,922	—	—	—	115,918
Customer deposits	2,921,604	849,816	1,556,530	474,447	—	549	5,802,946
Other financial liabilities	22	8	50	32	—	120,444	120,556
Total financial liabilities	3,067,341	861,455	1,567,512	481,002	—	121,413	6,098,723
Interest rate risk gap	(369,239)	(235,064)	121,820	327,364	330,789	(35,447)	140,223

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2015						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,083,704	—	—	—	—	47,527	1,131,231
Deposits with banks and other financial institutions	135,540	99,960	51,126	37,511	—	—	324,137
Placements with banks and other financial institutions	34,043	41,995	32,351	92,096	—	—	200,485
Financial assets at fair value through profit or loss	9,146	6,573	11,818	182	—	—	27,719
Derivative financial assets	—	—	—	—	—	1,073	1,073
Financial assets held under resale agreements	112,729	20,764	14,375	1,000	—	—	148,868
Loans and advances to customers	1,377,140	315,372	662,416	45,970	11,697	—	2,412,595
Available-for-sale financial assets	14,002	9,268	21,225	65,844	16,682	263,662	390,683
Held-to-maturity investments	14,971	56,594	82,082	236,344	294,776	—	684,767
Investment classified as receivables	33,728	296,184	1,128,726	255,320	169,540	—	1,883,498
Other financial assets	—	—	—	—	—	32,481	32,481
Total financial assets	2,815,003	846,710	2,004,119	734,267	492,695	344,743	7,237,537
Deposits from banks and other financial institutions	41,799	7,037	41,957	558	—	—	91,351
Placements from banks and other financial institutions	29,151	1,872	39,836	—	—	—	70,859
Derivative financial liabilities	—	—	—	—	—	1,039	1,039
Financial assets sold under repurchase agreements	182,062	50,619	162,136	—	—	—	394,817
Financial liabilities at fair value through profit or loss	142	418	3,579	—	—	—	4,139
Customer deposits	3,116,330	1,008,528	1,713,012	466,367	—	777	6,305,014
Debt securities issued	—	—	—	—	24,973	—	24,973
Other financial liabilities	5	5	13	10	—	119,385	119,418
Total financial liabilities	3,369,489	1,068,479	1,960,533	466,935	24,973	121,201	7,011,610
Interest rate risk gap	(554,486)	(221,769)	43,586	267,332	467,722	223,542	225,927

(All amounts in millions of RMB unless otherwise stated)

The Group

	March 31, 2016						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,281,009	—	—	—	—	48,807	1,329,816
Deposits with banks and other financial institutions	53,871	70,463	53,470	16,978	—	—	194,782
Placements with banks and other financial institutions	57,998	67,773	46,043	85,907	—	—	257,721
Financial assets at fair value through profit or loss	12,266	16,771	43,874	1,428	854	80	75,273
Derivative financial assets	—	—	—	—	—	1,378	1,378
Financial assets held under resale agreements	285,011	8,316	10,627	—	—	—	303,954
Loans and advances to customers	436,231	402,166	1,710,385	43,644	11,685	—	2,604,111
Available-for-sale financial assets	14,029	14,111	31,093	68,867	16,939	308,483	453,522
Held-to-maturity investments	15,066	40,271	76,537	246,477	299,085	—	677,436
Investment classified as receivables	143,592	302,365	871,010	216,994	169,623	—	1,703,584
Other financial assets	—	—	—	—	—	42,502	42,502
Total financial assets	2,299,073	922,236	2,843,039	680,295	498,186	401,250	7,644,079
Deposits from banks and other financial institutions	75,056	15,902	105,038	675	—	—	196,671
Placements from banks and other financial institutions	25,210	910	49,000	—	—	—	75,120
Derivative financial liabilities	—	—	—	—	—	1,094	1,094
Financial assets sold under repurchase agreements	67,471	13,306	194,286	—	—	—	275,063
Financial liabilities at fair value through profit or loss	640	4,073	1,175	—	—	208	6,096
Customer deposits	3,131,584	531,615	2,590,080	478,258	—	844	6,732,381
Debt securities issued	—	—	—	—	24,974	—	24,974
Other financial liabilities	5	3	8	7	—	108,451	108,474
Total financial liabilities	3,299,966	565,809	2,939,587	478,940	24,974	110,597	7,419,873
Interest rate risk gap	(1,000,893)	356,427	(96,548)	201,355	473,212	290,653	224,206

Foreign exchange risk

The major currency of the Group for daily operation is RMB. Other major currencies used by the Group include United States Dollars (USD), Euro (EUR) and Hong Kong Dollars (HKD).

(All amounts in millions of RMB unless otherwise stated)

The table below presents the Group's exposures that were subject to changes in exchange rates as at December 31, 2013, 2014 and 2015, and March 31, 2016. The Group's RMB exposures are included in the table for comparison. The financial assets and liabilities and off-balance sheet credit commitments are stated at their carrying amounts in RMB equivalent.

The Group

	December 31, 2013			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Cash and deposits with central bank	1,225,230	450	28	1,225,708
Deposits with banks and other financial institutions	1,034,837	9,445	322	1,044,604
Placements with banks and other financial institutions	92,333	1,149	—	93,482
Financial assets at fair value through profit or loss	4,482	—	—	4,482
Derivative financial assets	57	232	—	289
Financial assets held under resale agreements	387,187	—	—	387,187
Loans and advances to customers	1,456,553	6,692	15	1,463,260
Available-for-sale financial assets	135,971	667	—	136,638
Held-to-maturity investments	681,543	61	—	681,604
Investment classified as receivables	454,717	—	—	454,717
Other financial assets	36,271	102	—	36,373
Total financial assets	5,509,181	18,798	365	5,528,344

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2013			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Deposits from banks and other financial institutions	15,488	9,672	—	25,160
Placements from banks and other financial institutions	8,553	3,702	—	12,255
Derivative financial liabilities	32	272	—	304
Financial assets sold under repurchase agreements	75,494	—	—	75,494
Customer deposits	5,202,090	4,064	314	5,206,468
Other financial liabilities	105,866	85	1	105,952
Total financial liabilities	5,407,523	17,795	315	5,425,633
Net on-balance sheet position	101,658	1,003	50	102,711
Net nominal amount of derivative financial instruments	(132)	163	(41)	(10)
Credit commitments	113,621	306	—	113,927

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2014			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Cash and deposits with central bank	1,389,460	263	36	1,389,759
Deposits with banks and other financial institutions	725,623	4,239	355	730,217
Placements with banks and other financial institutions	109,131	4,623	—	113,754
Financial assets at fair value through profit or loss	9,880	18	—	9,898
Derivative financial assets	75	351	—	426
Financial assets held under resale agreements	557,523	—	—	557,523
Loans and advances to customers	1,827,333	4,625	109	1,832,067
Available-for-sale financial assets	137,785	546	—	138,331
Held-to-maturity investments	661,452	61	—	661,513
Investment classified as receivables	770,480	—	—	770,480
Other financial assets	34,942	36	—	34,978
Total financial assets	6,223,684	14,762	500	6,238,946
Deposits from banks and other financial institutions	37,517	3,102	—	40,619
Placements from banks and other financial institutions	8,830	9,434	—	18,264
Derivative financial liabilities	68	352	—	420
Financial assets sold under repurchase agreements	115,918	—	—	115,918
Customer deposits	5,798,339	4,196	411	5,802,946
Other financial liabilities	120,528	27	1	120,556
Total financial liabilities	6,081,200	17,111	412	6,098,723
Net on-balance sheet position	142,484	(2,349)	88	140,223
Net nominal amount of derivative financial instruments	(2,747)	2,691	13	(43)
Credit commitments	163,627	4,198	219	168,044

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at December 31, 2015			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Cash and deposits with central bank	1,130,700	491	40	1,131,231
Deposits with banks and other financial institutions	319,433	4,066	638	324,137
Placements with banks and other financial institutions	178,561	21,924	—	200,485
Financial assets at fair value through profit or loss	27,527	192	—	27,719
Derivative financial assets	36	1,030	7	1,073
Financial assets held under resale agreements	148,803	65	—	148,868
Loans and advances to customers	2,408,181	3,908	506	2,412,595
Available-for-sale financial assets	390,102	581	—	390,683
Held-to-maturity investments	683,851	916	—	684,767
Investment classified as receivables	1,883,498	—	—	1,883,498
Other financial assets	32,450	30	1	32,481
Total financial assets	7,203,142	33,203	1,192	7,237,537

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at December 31, 2015			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Deposits from banks and other financial institutions	87,847	3,504	—	91,351
Placements from banks and other financial institutions	68,240	2,515	104	70,859
Financial liabilities at fair value through profit or loss	4,139	—	—	4,139
Derivative financial liabilities	36	1,000	3	1,039
Financial assets sold under repurchase agreements	394,817	—	—	394,817
Customer deposits	6,297,570	6,824	620	6,305,014
Debt securities issued	24,973	—	—	24,973
Other financial liabilities	119,373	44	1	119,418
Total financial liabilities	6,996,995	13,887	728	7,011,610
Net on-balance sheet position	206,147	19,316	464	225,927
Net nominal amount of derivative financial instruments	(1,611)	2,231	(660)	(40)
Credit commitments	312,191	5,008	491	317,690

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at March 31, 2016			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Cash and deposits with central bank	1,327,957	1,799	60	1,329,816
Deposits with banks and other financial institutions	185,549	9,233	—	194,782
Placements with banks and other financial institutions	195,940	61,781	—	257,721
Financial assets at fair value through profit or loss	70,873	4,400	—	75,273
Derivative financial assets	1,001	304	73	1,378
Financial assets held under resale agreements	303,792	162	—	303,954
Loans and advances to customers	2,600,700	2,974	437	2,604,111
Available-for-sale financial assets	451,313	2,150	59	453,522
Held-to-maturity investments	676,348	1,088	—	677,436
Investment classified as receivables	1,703,584	—	—	1,703,584
Other financial assets	42,426	75	1	42,502
Total financial assets	7,559,483	83,966	630	7,644,079

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at March 31, 2016			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Deposits from banks and other financial institutions	193,175	3,496	—	196,671
Placements from banks and other financial institutions	65,000	10,098	22	75,120
Financial liabilities at fair value through profit or loss	5,967	129	—	6,096
Derivative financial liabilities	316	778	—	1,094
Financial assets sold under repurchase agreements	275,063	—	—	275,063
Customer deposits	6,723,495	8,410	476	6,732,381
Debt securities issued	24,974	—	—	24,974
Other financial liabilities	108,427	46	1	108,474
Total financial liabilities	7,396,417	22,957	499	7,419,873
Net on-balance sheet position	163,066	61,009	131	224,206
Net nominal amount of derivative financial instruments	41,423	(40,097)	(1,091)	235
Credit commitments	327,668	8,701	625	336,994

The Group's foreign exchange exposure is not material and is mainly in US dollars. The potential impact on net profit resulting from foreign currency translation gains/(losses) with 1% fluctuation in USD against RMB is as follows:

	December 31,			March 31,
	2013	2014	2015	2016
1% of appreciation of USD against RMB	4	(31)	137	110
1% of depreciation of USD against RMB	(4)	31	(137)	(104)

44.6 ***Operational risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, inadequate personnel controls and flawed systems or from external events. Events of losses caused by

(All amounts in millions of RMB unless otherwise stated)

operational risks mainly arise from internal and external frauds; unreasonable employment rules and procedures, work-place security flaws, inadequate controls on customer products and business activities; damages to physical assets; information system flaws; failure in delivery and settlement and process management, etc.

Guided by the operational risk management policies approved by the Board of Directors, the Group's senior management is mainly responsible for building and implementing the operational risk management structure. The structure aims to continuously improve the internal control mechanism, reinforce the supervision and inspection framework, enrich the basis of operation management, strengthen information technology management, regulate staff behaviour, intensify monitoring report and ensure the security of business operation.

44.7 ***Fair value of financial instruments***

The majority of the assets and liabilities of the Group as presented in its consolidated statement of financial position are financial assets and financial liabilities. The changes in fair value of non-financial assets and non-financial liabilities have insignificant impact on the financial results of the Group.

(1) *Valuation technique, input and process*

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions, traded in active, liquid markets are determined with reference to quoted market prices.

- The fair value of non-option derivatives is determined through analysis of discounted future cash flows based on the instrument's yield curve.

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there are no available observable current market transactions prices for similar instruments, the fair value of net assets is used for the valuations, and management performs analysis on this valuation.

The Group has set up an independent valuation process for financial assets. The Financial Market Department is responsible for the valuation of financial instruments, and the Risk Management Department carries out analysis and evaluation on the valuation results. The Financial Management Department records the accounting for these items and prepares the disclosure of the financial assets based on the valuation results.

(All amounts in millions of RMB unless otherwise stated)

During each of the years ended December 31, 2013, 2014 and 2015, and for the three months ended March 31, 2016, there was no significant change in the valuation techniques or inputs used to determine fair value measurements as compared to those used in the financial statements.

(2) *Fair value hierarchy*

Financial instruments measured at fair value are classified into the following three levels of measurement hierarchy:

Level 1: Fair value is determined based on quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

Parameters used in valuation techniques include mainly debt securities prices, interest rates, exchange rates, equity prices, fluctuation level, correlation, pre-payment rate and counterparties' credit spread, and are all observable parameters available from open markets.

The Group uses fair value to measure financial instruments classified as Level 3 in the measurement hierarchy, which primarily include equity investments in industrial funds of the Group and its assets and liabilities designated as at fair value through profit or loss. The fair value of equity investments is determined using the equity method, where the significant non-observable data are the net assets of the invested funds and the changes in these data cause their fair value to change in the same direction; the fair value of financial assets and liabilities designated as at fair value through profit or loss is measured using the discounted cash flow method, where the significant non-observable data are the yield curves of similar financial instruments to be used as discount rates and the changes in these data cause their fair value to move in the opposite direction. The Group has put in place relevant internal control procedures to monitor its exposure to these financial instruments.

(3) *Financial assets and financial liabilities not measured at fair value on the statement of financial position*

Financial assets and liabilities not measured at fair value mainly represent deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivable, loans and advances to

(All amounts in millions of RMB unless otherwise stated)

customers, held-to-maturity investments and investment classified as receivables, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits, interest payable and debt securities issued.

The Group

	As at December 31, 2013				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	681,604	637,005	61	636,944	—
Investment classified as receivables	454,717	453,918	—	5,882	448,036
Total	1,136,321	1,090,923	61	642,826	448,036

The Group

	As at December 31, 2014				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	661,513	664,047	62	663,985	—
Investment classified as receivables	770,480	783,811	—	55,871	727,940
Total	1,431,993	1,447,858	62	719,856	727,940

The Group

	As at December 31, 2015				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	684,767	711,061	925	710,136	—
Investment classified as receivables	1,883,498	1,985,754	—	100,805	1,884,949
Total	2,568,265	2,696,815	925	810,941	1,884,949
Financial liabilities					
Debt securities issued	24,973	25,277	—	25,277	—

(All amounts in millions of RMB unless otherwise stated)

The Group

	As at March 31, 2016				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	677,436	707,580	1,042	706,538	—
Investment classified as receivables	1,703,584	1,654,373	—	100,099	1,554,274
Total	2,381,020	2,361,953	1,042	806,637	1,554,274
Financial liabilities					
Debt securities issued	24,974	25,277	—	25,277	—

Except for the financial assets and liabilities above, the fair value of other financial assets and liabilities not measured at fair value in the balance sheet are determined using discounted future cash flows. There is no significant difference between their fair value and their carrying amounts.

(4) *Financial assets and financial liabilities measured at fair value on the statement of financial position*

The tables below summarizes the fair values of the financial assets and financial liabilities measured in the balance sheet at their fair value.

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	—	4,482	—	4,482
Subtotal	—	4,482	—	4,482
Derivative financial assets				
- Exchange rate derivatives	—	260	—	260
- Interest rate derivatives	—	29	—	29
Subtotal	—	289	—	289
Available-for-sale financial assets				
- Debt securities	556	132,811	—	133,367
- Asset-backed securities	111	867	—	978
- Equity instruments	—	—	2,227	2,227
Subtotal	667	133,678	2,227	136,572
Total	667	138,449	2,227	141,343
Derivative financial liabilities				
- Exchange rate derivatives	—	(272)	—	(272)
- Interest rate derivatives	—	(32)	—	(32)
Subtotal	—	(304)	—	(304)
Total	—	(304)	—	(304)

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	18	8,406	—	8,424
- Certificates of deposits	—	1,474	—	1,474
Subtotal	18	9,880	—	9,898
Derivative financial assets				
- Exchange rate derivatives	—	404	—	404
- Interest rate derivatives	—	22	—	22
Subtotal	—	426	—	426
Available-for-sale financial assets				
- Debt securities	546	122,289	—	122,835
- Asset-backed securities	—	13,539	—	13,539
- Equity instruments	—	—	1,891	1,891
Subtotal	546	135,828	1,891	138,265
Total	564	146,134	1,891	148,589
Derivative financial liabilities				
- Exchange rate derivatives	—	(398)	—	(398)
- Interest rate derivatives	—	(22)	—	(22)
Subtotal	—	(420)	—	(420)
Total	—	(420)	—	(420)

(All amounts in millions of RMB unless otherwise stated)

The Group

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	159	6,967	—	7,126
- Certificates of deposits	—	16,454	—	16,454
- Asset management plans	—	—	4,139	4,139
Subtotal	159	23,421	4,139	27,719
Derivative financial assets				
- Exchange rate derivatives	—	1,044	—	1,044
- Interest rate derivatives	—	29	—	29
Subtotal	—	1,073	—	1,073
Available-for-sale financial assets				
- Debt securities	581	103,160	—	103,741
- Asset-backed securities	—	23,280	—	23,280
- Equity instruments	—	260,939	2,657	263,596
Subtotal	581	387,379	2,657	390,617
Total	740	411,873	6,796	419,409
Financial liabilities at fair value through profit or loss				
- Wealth management products	—	—	(4,139)	(4,139)
Derivative financial liabilities				
- Exchange rate derivatives	—	(1,009)	—	(1,009)
- Interest rate derivatives	—	(30)	—	(30)
Subtotal	—	(1,039)	—	(1,039)
Total	—	(1,039)	(4,139)	(5,178)

(All amounts in millions of RMB unless otherwise stated)

The Group

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- Debt securities	1,311	14,164	—	15,475
- Certificates of deposits	—	53,830	—	53,830
- Asset management plans	—	—	5,968	5,968
Subtotal	1,311	67,994	5,968	75,273
Derivative financial assets				
- Exchange rate derivatives	—	1,349	—	1,349
- Interest rate derivatives	—	29	—	29
Subtotal	—	1,378	—	1,378
Available-for-sale financial assets				
- Debt securities	2,080	119,433	—	121,513
- Asset-backed securities	—	23,526	—	23,526
- Equity instruments	—	168,885	2,301	171,186
Subtotal	2,080	311,844	2,301	316,225
Total	3,391	381,216	8,269	392,876
Financial liabilities at fair value through profit or loss				
- Short selling of bonds	(129)	—	—	(129)
- Wealth management products	—	—	(5,967)	(5,967)
Subtotal	(129)	—	(5,967)	(6,096)
Derivative financial liabilities				
- Exchange rate derivatives	—	(1,056)	—	(1,056)
- Interest rate derivatives	—	(38)	—	(38)
Subtotal	—	(1,094)	—	(1,094)
Total	(129)	(1,094)	(5,967)	(7,190)

There were no significant movements among levels of the fair value hierarchy for each of the years ended December 31, 2013, 2014 and 2015, and the three months ended March 31, 2016.

(All amounts in millions of RMB unless otherwise stated)

Changes in Level 3 financial assets are analyzed below:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Balance at beginning of year/period	2,460	2,227	1,891	6,796
Increase	235	13	9,048	3,171
Settled	(522)	(392)	(5,153)	(1,446)
Total gains or losses recognized in				
- Profit or loss	54	134	143	90
- Other comprehensive income	—	(91)	867	(342)
Balance at end of year/period	2,227	1,891	6,796	8,269

Changes in Level 3 financial liabilities are analyzed below:

The Group

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Balance at beginning of year/period	—	—	—	(4,139)
Increase	—	—	(9,153)	(3,167)
Settled	—	—	5,100	1,377
Total gains or losses recognized in				
- Profit or loss	—	—	(86)	(38)
- Other comprehensive income	—	—	—	—
Balance at end of year/period	—	—	(4,139)	(5,967)

44.8 ***Capital management***

The Group's capital management aims at meeting regulatory requirements, continuously improving the ability to mitigate risks and increasing returns on capital. Accordingly, the Group has set its capital adequacy objectives and employed various means and methods to deliver its management objectives, including performance assessment against plans and budgets and limit management; to ensure its capital management meets external regulatory, credit rating, risk compensation and shareholders' value requirements; and help drive risk management across the Group; ensure a disciplinary expansion of its asset, improve its business structure and operating models.

(All amounts in millions of RMB unless otherwise stated)

The Group has maintained a relatively fast pace of development in terms of business scale in recent years with an increase in the utilization of capital accordingly. In order to ensure that the Group meets regulatory capital adequacy requirements and maximizes returns to shareholders without compromising its risk control, the Group makes strong efforts to promote the establishment of capital constraints system, strengthen the control of total amount and structure of risk assets, and promotes the transformation of its business model towards a capital efficient one through comprehensively using several measures such as capital planning, limit management, economic capital management and estimation of internal capital adequacy, in order to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements continuously.

In accordance with *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (商業銀行資本管理辦法(試行)) promulgated by CBRC and the related provisions, as from January 1, 2013, CBRC requires commercial banks to maintain a minimum capital adequacy ratio, where core tier 1 capital adequacy ratio not lower than 5%, tier 1 capital adequacy ratio not lower than 6%, and capital adequacy ratio not lower than 8%. Meanwhile, in accordance with the *Notice of the CBRC on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (中國銀監會關於實施<商業銀行資本管理辦法(試行)>過渡期安排相關事項的通知), capital reserve requirement will be gradually introduced within the transitional period, and is to be satisfied by the core tier 1 capital of commercial banks. In accordance with this provision, as at December 31, 2013, 2014 and 2015, and March 31, 2016, the Group's core tier 1 capital adequacy ratio should be 5.50%, 5.90%, 6.30% and 6.70% respectively, the tier 1 capital adequacy ratio should be 6.50%, 6.90%, 7.30% and 7.70% respectively, and capital adequacy ratio should be 8.50%, 8.90%, 9.30% and 9.70% respectively. The Group continuously intensifies the monitoring, analysing and reporting of capital adequacy ratios, constantly optimises the risk asset structure, increases internal capital accumulation, and promotes the supplement of external capital, in order to ensure that the Group's capital adequacy ratio meets regulatory requirements and internal management needs.

The Group's regulatory capital as calculated according to *the Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (商業銀行資本管理辦法(試行)) promulgated by CBRC and Accounting Standards for Business Enterprises issued by the MOF as at December 31, 2013, 2014 and 2015, and March 31, 2016 is as follows:

(All amounts in millions of RMB unless otherwise stated)

The Group

		As at December 31,			As at March 31,
	Note	2013	2014	2015	2016
Core tier 1 capital adequacy ratio	(i)	7.72%	8.44%	8.53%	8.35%
Tier 1 capital adequacy ratio	(i)	7.72%	8.44%	8.53%	8.35%
Capital adequacy ratio	(i)	8.84%	9.56%	10.46%	10.26%
Core tier 1 capital		141,047	187,909	270,459	273,445
Deductions of core tier 1 capital	(ii)	(815)	(934)	(1,451)	(1,553)
Core tier 1 capital - net		140,232	186,975	269,008	271,892
Other tier 1 capital		—	—	1	3
Tier 1 capital - net		140,232	186,975	269,009	271,895
Tier 2 capital					
- Excess provision loan loss		20,297	24,769	35,836	37,013
- Qualifying Tier 2 capital instruments and related premiums		—	—	25,000	25,000
- Non-controlling interest recognized in Tier 2 capital		—	—	3	5
Net capital	(iii)	160,529	211,744	329,848	333,913
Risk-weighted assets	(iv)	1,816,168	2,214,818	3,153,015	3,255,410

(i) Core tier 1 capital adequacy ratio is equal to net core tier 1 capital divided by risk-weighted assets; tier 1 capital adequacy ratio is equal to net tier 1 capital divided by risk-weighted assets; and capital adequacy ratio is equal to net capital divided by risk-weighted assets.

(ii) Deductions from core tier 1 capital include other intangible assets (not including land use rights).

(iii) Net capital is equal to total capital net of deductions from total capital.

(iv) Risk-weighted assets include credit risk-weighted assets measured using the risk-weighted method, market risk-weighted assets measured using the standardized method, and operational risk-weighted assets measured using the basic indicator approach.

45 Events after the balance sheet date

On April 6, 2016, the Board of Directors resolved to issue qualified tier 2 capital instruments up to RMB50 billion to enhance capital adequacy, which was approved by the CBRC and the PBOC in June and September 2016 respectively. As at the date of this report, the Bank has not issued such bonds.

(All amounts in millions of RMB unless otherwise stated)

Pursuant to the "Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Taxes Reform" (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知) issued by the MOF and the State Administration of Taxation, the Bank is required to pay value added taxes instead of business taxes from May 1, 2016. Value added tax and related underlying value of the invoice for value added taxable income and expenses shall be stated and accounted for separately.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Bank or its subsidiary in respect of any period subsequent to March 31, 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Bank or its subsidiary in respect of any period subsequent to March 31, 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out below does not form part of the Accountant's Report prepared by the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in millions of RMB, 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 ratios and leverage ratio

(1) *Liquidity ratios*

	As at December 31, 2013	Average for the year ended December 31, 2013
Liquidity ratios (RMB and foreign currency)	51.28%	58.89%

	As at December 31, 2014	Average for the year ended December 31, 2014
Liquidity ratios (RMB and foreign currency)	43.66%	51.66%

	As at December 31, 2015	Average for the year ended December 31, 2015
Liquidity ratios (RMB and foreign currency)	33.96%	44.78%

	As at March 31, 2016	Average for the three months ended March 31, 2016
Liquidity ratios (RMB and foreign currency)	49.38%	40.81%

(2) ***Leverage ratios***

	As at March 31, 2016
Leverage ratio	3.47%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Amended) (商業銀行槓桿率管理辦法(修訂)) issued by the China Banking Regulatory Commission (the "CBRC"), systematically important banks shall meet the minimum leverage ratio of 4% since April 1, 2015 (effective date of the Measures); and other banks shall meet the minimum regulatory requirement by the end of 2016.

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the financial information prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance in the People's Republic of China.

2 **Currency concentration**

	As at December 31, 2013			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	26,531	1,001	1,542	29,074
Spot liabilities	(26,362)	(1,002)	(1,541)	(28,905)
Forward purchases	33,445	13	32	33,490
Forward sales	(33,535)	(47)	(44)	(33,626)
Net long/(short) position	79	(35)	(11)	33

	As at December 31, 2014			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	22,536	88	1,076	23,700
Spot liabilities	(25,233)	(83)	(998)	(26,314)
Forward purchases	56,782	20	448	57,250
Forward sales	(54,005)	(42)	(492)	(54,539)
Net long/(short) position	80	(17)	34	97

	As at December 31, 2015			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	36,808	(944)	1,680	37,544
Spot liabilities	(16,792)	1,001	(1,284)	(17,075)
Forward purchases	76,657	17	1,237	77,911
Forward sales	(74,636)	(181)	(1,750)	(76,567)
Net long/(short) position	22,037	(107)	(117)	21,813

	As at March 31, 2016			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	86,125	302	(773)	85,654
Spot liabilities	(24,197)	(115)	1,395	(22,917)
Forward purchases	109,620	1	1,797	111,418
Forward sales	(149,828)	(292)	(2,567)	(152,687)
Net long/(short) position	21,720	(104)	(148)	21,468

The Bank had no structural position during each of the years ended December 31, 2013, 2014, and 2015 and for the three months ended March 31, 2016.

3 International claims

The Bank regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and investments in debt securities.

A country or geographical region 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.

	As at December 31, 2013			
	Public sector	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
Asia Pacific	250	1,935	7,083	9,268
of which attributed to Hong Kong	—	550	—	550
North and South America	70	813	10	893
Europe	—	204	—	204
	320	2,952	7,093	10,365

	As at December 31, 2014			
	Public sector	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
Asia Pacific	250	5,654	5,078	10,982
of which attributed to Hong Kong	—	583	13	596
North and South America	70	365	6	441
Europe	—	248	—	248
	320	6,267	5,084	11,671

	As at December 31, 2015			
	Public sector	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
Asia Pacific	100	24,975	4,648	29,723
of which attributed to Hong Kong	—	11,378	37	11,415
North and South America	—	2,384	1	2,385
Europe	—	761	—	761
	100	28,120	4,649	32,869

	As at March 31, 2016			
	Public sector	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	100	68,487	5,231	73,818
of which attributed to Hong Kong	—	5,008	46	5,054
North and South America	—	5,750	18	5,768
Europe	—	2,242	—	2,242
	100	76,479	5,249	81,828

4 **Gross amount of overdue loans and advances to customers**

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods within 3 months (inclusive)	2,800	5,892	7,721	8,637
between 3 months to 6 months (inclusive)	1,514	2,606	4,885	4,802
between 6 months to 12 months (inclusive)	2,529	3,617	6,651	7,008
over 12 months	2,178	3,353	5,248	6,685
Total	9,021	15,468	24,505	27,132
As a percentage of total gross loans and advances to customers within 3 months (inclusive)	0.18%	0.31%	0.31%	0.32%
between 3 months to 6 months (inclusive)	0.10%	0.14%	0.20%	0.18%
between 6 months to 12 months (inclusive)	0.17%	0.19%	0.27%	0.27%
over 12 months	0.15%	0.18%	0.21%	0.25%
Total	0.60%	0.82%	0.99%	1.02%

Overdue loans and advances to customers by geographical areas:

	As at December 31,			As at March 31,
	2013	2014	2015	2016
Head Office	428	634	857	920
Yangtze River Delta	1,359	2,945	3,391	3,770
Pearl River Delta	745	1,469	2,362	2,469
Bohai Rim	1,316	1,680	2,871	3,495
Central China	1,905	2,721	4,984	5,692
Western China	1,323	2,655	6,344	7,242
Northeastern China	1,945	3,364	3,696	3,544
	9,021	15,468	24,505	27,132

The information set out in this Appendix III does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Bank, as set out in Appendix I 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 entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared based on the notes set out below for the purpose of illustrating the effect of the Global Offering as if the Global Offering had occurred on March 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 our Group had the Global Offering been completed as of March 31, 2016 or any future date.

	Audited Consolidated Net Tangible Assets of the Group Attributable to Equity Holders of the Bank as at March 31, 2016	Estimated Net Proceeds from the Global Offering	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets of the Group Attributable to Equity Holders of the Bank as at March 31, 2016	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets per Ordinary Share	
	(Note 1)	(Note 2, 4)		(Note 3)	(Note 4)
	RMB in Million	RMB in Million	RMB in Million	RMB	HK$
Based on an Offer Price of HK$4.68 per share.........	271,849	47,913	319,762	3.96	4.60
Based on an Offer Price of HK$5.18 per share.........	271,849	53,037	324,886	4.03	4.69

Notes:

1. The audited consolidated net tangible assets attributable to equity holders of the Bank as at March 31, 2016 is based on the audited consolidated net assets of the Group attributable to the equity holders of the Bank as at March 31, 2016 of approximately RMB273,426 million, as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, with an adjustment for the intangible assets of the Group as at March 31, 2016 of approximately RMB1,577 million.

2. The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$4.68 and HK$5.18 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and listing related expenses and takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be allotted, issued or repurchased by the Bank pursuant to the general mandate.

3. The unaudited pro forma adjusted net tangible assets per share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 80,710,588,000 shares are in issue assuming that the Global Offering has been completed on March 31, 2016, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be allotted, issued or repurchased by the Bank pursuant to the general mandate.

4. For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.86019 to HKD1.00000 set by the PBOC prevailing on September 2, 2016. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2016.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Postal Savings Bank of China Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (collectively the "Group") by the Directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at March 31, 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-2 of the Bank's prospectus dated September 14, 2016, in connection with the proposed initial public offering of the shares of the Bank. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-2.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at March 31, 2016 as if the proposed initial public offering had taken place at March 31, 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three months ended March 31, 2016, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited 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").

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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.

Our firm applies Hong Kong Standard on Quality Control 1 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.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited 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 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 accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited 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 purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 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 the proposed initial public offering at March 31, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited 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 unaudited 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 unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Bank 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, September 14, 2016

This Appendix sets forth summaries of certain aspects of PRC law and regulations which are relevant to the Company'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 PRC and Hong Kong company law, certain requirements of the Listing Rules and other provisions required by the Hong Kong Stock Exchange in addition to the articles of association of the PRC issuers. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is not intended to include all the information which may be important to the potential investors. For discussion of laws and regulations which are relevant to the business of the Bank, please see the section entitled "Supervision and Regulation."

THE PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (中華人民共和國憲法) (the "Constitution") and is composed of written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Judicial decisions do not constitute binding precedents, however, they may be used as judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (中華人民共和國立法法) (the "Legislation Law"), the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of 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 administrative authority of the PRC and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, the PBOC, the NAO, and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

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 requirements of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if there are separate provisions by law on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The people's governments of the provinces, autonomous regions and municipalities directly under the Central Government as well as cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people's governments of cities divided into districts and autonomous prefectures may only formulate local regulations in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local regulations which have been enacted involving aspects other than those described above shall continue to be in effect.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations and separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the Central Government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate rules and regulations of departments and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul any inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Resolutions of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on issues involving the specific application of laws and decrees in court trials. Interpretation of issues involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of issues involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of issues involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organization of the People's Courts (中華人民共和國人民法院組織法), the PRC judicial system is composed of the Supreme People's Court, the local people's courts, military courts and other special people's courts.

The local people's courts are composed of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts may organize criminal division, civil division and economic division. The intermediate people's courts have similar divisions to those of the primary people's courts, and are entitled to organize other courts as needed such as the intellectual property division.

The higher level people's courts supervise the primary and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC which supervises the judicial administration of the people's courts at all levels.

The people's courts apply a two-tier appellate system. A party may appeal against a judgment or ruling of a local people's court to the people's court at the next higher level. Second judgments or rulings given at the next higher level are final. First judgments or rulings of the Supreme People's Court are also final. However, if the Supreme People's Court or a people's court at a higher level finds an error in a judgment which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The PRC Civil Procedure Law (中華人民共和國民事訴訟法), which was promulgated in 1991 and amended in 2007 and 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either within the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or within the place of the object of the action and other place which has actual connection with the dispute, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or against social and public interest.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

- the PRC Company Law, which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised as of December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively and the latest revision of which was implemented on March 1, 2014;

- the Special Regulation of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (the "Special Regulations"), which were promulgated by the State Council on August 4, 1994 pursuant to the relevant provisions of the PRC Company Law, and are applicable to the overseas share offering and listing of joint stock limited companies; and

- the Mandatory Provisions, which were jointly promulgated by the former Securities Committee of the State Council and the former State Economic Restructuring Commission on August 27, 1994, and stated the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Bank, the summary of which is set out in Appendix V — Summary of Articles of Association to this prospectus.

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions applicable to our Bank.

General

A "company" is a corporate legal person incorporated within the PRC 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 full amount of its assets and the liability of its shareholders is limited to the extent of the capital contributions subscribed or the shares subscribed respectively by them. Companies can be divided into two different categories: limited liability companies and joint stock limited companies.

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value and the liability of its shareholders is limited to the amount of shares held by them. The liability of a joint stock limited company, which shall be liable for its debt, is limited to an amount equal to the total value of its assets.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters. At least half of the promoters must have residence within the PRC.

Joint stock limited companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Shares in the company shall not be offered to other persons unless the registered capital has been paid up. For joint stock limited companies incorporated by public subscription, the registered capital is the amount of its total paid up capital as registered with the registration authorities. There is no limitation on the minimum registered capital of a joint stock limited company unless otherwise required by other laws or administrative regulation.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed for by them by the articles of association, and the capital contribution shall be paid according to the articles of association. Procedures relating to the transfer of title for non-monetary assets shall be duly completed if such assets are to be contributed as capital. After the promoters have completed the capital contribution according to the articles of association, a board of directors and a board of supervisors shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with other documents required by the law or administrative regulations.

Where a joint stock limited company is incorporated by subscription, not less than 35% of its total shares must be subscribed for by the promoters and the remainder can be subscribed for by the public or particular persons, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities firms established by law, in relation to which underwriting agreements shall be signed. A receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to the relevant authorities.

According to the Special Regulations, State Owned Enterprises or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

According to the PRC Securities Law, the total share capital of a company seeking to list its shares on a stock exchange shall be no less than RMB30 million.

After the issued shares have been fully paid up, such capital contribution shall be verified by and a capital certification report shall be issued by a capital certification organization established by law. The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before convening the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing the majority of total shares in the Company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members (the directors and supervisors assumed by the staff representatives shall be democratically elected by the company's staff and the staff representatives) of the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established and has the status of a legal person once the business license has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

According to the Provisional Regulations on the Administration of Share Issuance and Trading (股票發行與交易管理暫行條例) promulgated by the State Council on April 22, 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, all promoters of such company are required to sign the prospectus to ensure that the prospectus does not contain any misrepresentation, seriously misleading statements or material omissions, and assume joint and several responsibility for it.

Allotment and Issue of Shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

A joint stock limited company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors (including the investors from the foreign countries and Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan region) by joint stock limited companies and listed overseas are known as "overseas listed and foreign invested shares." Shares issued to investors within the PRC by joint stock limited companies, which also issue overseas listed and foreign shares, are known as "domestic shares." Upon approval of the CSRC, a joint stock limited company issuing overseas listed and foreign invested shares in total shares determined by the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the PRC Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares shall be issued in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

Under the PRC Company Law, when the joint stock limited company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

Increase of Share Capital

According to the PRC Company Law, when the joint stock limited company issues new shares, resolutions shall be passed by a shareholders' general meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement date and deadline of the new share issuance and the class and amount of new shares to be issued to existing shareholders. When the joint stock limited company launches a public issuance of new shares with the approval of the CSRC, it shall publish a prospectus and accounting reports, and prepare the share subscription form.

After the new share issuance has been paid up by the joint stock limited company, the change shall be registered with the company registration authorities and an announcement shall be made. When the joint stock limited company issues the new shares for increase of the registered capital, the shareholders shall subscribe for the new shares pursuant to the provisions relevant to the paid-up subscription share capital for incorporation.

Reduction of Share Capital

A joint stock limited company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by a resolution at the shareholders' general meeting;
- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors of the joint stock limited company may require the company to settle its debts or provide guarantees covering the debts within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received; and
- it shall apply to the relevant administration for industry and commerce the registration of the reduction in registered capital.

Repurchase of Shares

According to the PRC Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (i) to reduce its registered capital; (ii) to merge with another company that holds its shares; (iii) to grant its shares to its employees as incentives; and (iv) shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting request the company to purchase their shares.

The purchase of shares on the grounds set out in (i) to (iii) above shall be approved by a resolution passed by the shareholders' general meeting. Following the purchase of shares of the joint stock limited company in accordance with the foregoing, such shares shall be canceled within 10 days from the date of purchase in the case of (i) above and transferred or canceled within six months in the case of (ii) or (iv) above. Shares acquired in accordance with (iii) above shall not exceed 5% of the total number of the joint stock limited company's issued shares. Such acquisition shall be financed by funds appropriated from the joint stock limited company's profit after taxation, and the shares so acquired shall be transferred to the joint stock limited company's 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, transfer of shares by shareholders of a joint stock limited company shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No changes of registration in the share register caused by transfer of registered shares shall be effected within twenty days prior to the convening of shareholders' general meeting or five days prior to the base date for determination by the joint stock limited company of dividend distributions. However, where there are separate provisions by law on changes of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within thirty days prior to convening of shareholders' general meeting of the joint stock limited company or five days prior to any base date for determination of dividend distributions.

Under the PRC Company law, shares issued prior to the public issuance of shares of the joint stock limited company shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and the senior management of the joint stock limited company shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the joint stock limited company's shares they hold within one year from the date on which the joint stock limited company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from the company. Other restrictions on the transfer of the company's shares held by the directors, supervisors and other senior management of the company may be specified in the articles of association.

Amendment of the Articles of Association

According to the PRC Company Law and the Mandatory Provisions, the joint stock limited company may amend its articles of association according to the laws, administrative regulations and provisions of the articles of association. Shareholders' general meeting exercises the power to amend the company's articles of association. 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 present at the meeting. The board of directors is responsible for the shareholders' general meeting and exercises powers including formulating the proposed amendments to the company's articles of association. The amendment of articles of association involving content of Mandatory Provisions will only be effective upon approval of the company examination and approval authority authorized by the State Council and of the CSRC. It must process the registration of changes involving the matters of the company registration with the State Administration for Industry and Commerce or any of its local bureaus in accordance with laws. The Special Regulations require that the joint stock limited company must not modify or delete those provisions in the articles of association related to the mandatory provisions of the articles of association without authorization.

Shareholders

A shareholder's rights and duties are all stipulated in the company's articles of association, which is binding on all shareholders. The rights of shareholders are prescribed in the PRC Company Law and the Mandatory Provisions. Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the supervisory committee and financial and accounting reports and to make proposals or enquires on the company's operations;
- the right to bring an action in the people's court to rescind resolutions passed by shareholders' general meetings and board of directors where the articles of association is violated by the above resolutions;
- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of surplus assets of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription amount in respect of the joint stock limited company's shares subscribed for and in accordance with the form of making capital contributions, to be liable for the joint stock limited company's debts and liabilities, and not to abuse the shareholders' rights to prejudice the rights of the joint stock limited company or other shareholders thereof and not to abuse the independence and limited liability of the joint stock limited company as a legal person to prejudice the interest of the creditor(s) of the joint stock limited company to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the joint stock limited company, which exercises its powers in accordance with the PRC Company Law.

Under the PRC Company Law, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors (other than the supervisor representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the supervisory committee;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the PRC Company Law, an extraordinary shareholders' general meeting of the joint stock limited company is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid up share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;
- when the supervisory committee so requests; or
- other circumstances as provided for in the articles of associations.

Under the PRC Company Law, shareholders' general meetings 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 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 not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the joint stock limited company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the PRC Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of our extraordinary shareholders' general meetings shall be given to all shareholders 15 days prior to the meeting. Notice of the issuance of bearer shares shall be announced 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions, such notice in writing shall be delivered to all the registered shareholders 45 days in advance to the meeting of the joint stock limited company, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the joint stock limited company 20 days in advance 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. Pursuant to the Special Regulations and the Mandatory Provisions, shareholders' general meeting of the joint stock limited company may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the joint stock limited company's total voting shares. Otherwise the joint stock limited company shall, within five days, notify the shareholders again of the matters to be considered, time and venue of the meeting by a public announcement.

The joint stock limited company may convene the shareholders' general meeting after such a public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred on any class of shareholders by the joint stock limited company shall be passed both by a special resolution of shareholders' general meeting and by a class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the joint stock limited company convenes annual shareholders' general meeting, shareholders holding more than 5% of voting shares of the joint stock limited company have a right to submit to the joint stock limited company new proposals in writing, in which the matters falling within the scope of shareholders' general meeting shall be placed in the agenda of the meeting.

Under the PRC Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares of the joint stock limited/company held by the company itself are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of director or supervisor to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the PRC Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issue of any type of shares, warrants or other similar securities; (iv) the issue of debentures; (v) the merger, division, dissolution, liquidation or change in the form of the company; and (vi) other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consists of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the joint stock limited company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his 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 mainly exercises the following powers:

- to convene the shareholders' general meetings and to report on its work to the shareholders' general meetings;
- to implement the resolutions passed at shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- to make decisions on the establishment of the company's internal management bodies;
- to decide on appointment or dismissal of company managers and their remuneration, and to decide on appointment or dismissal of deputy managers and finance controller of the company based on the nomination by the managers as well as their remuneration;
- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

Board Meetings

Under the PRC Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice 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 voting rights, more than one-third of the directors or the supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if the majority of the directors are present. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. Resolutions of the board of directors shall be passed by the majority of all directors.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the joint stock limited company sustains serious losses, the directors participating in the resolution are liable to compensate the joint stock limited 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 may be released from that liability.

Chairman of the Board

Under the PRC Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Qualification of Directors

The PRC Company Law provides that the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;

- a person who has been convicted of an offense of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy 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;

- 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;

- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and

- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Supervisory Committee

A joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the supervisory committee shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors. The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors.

The chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the supervisory committee.

Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and 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 term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory committee exercises the following powers under the PRC Company Law:

- to review the company's financial condition;

- 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, administrative regulations, the articles of association or the resolutions of shareholders' general meeting;

- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;

- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting;

- to initiate proposals for resolutions to shareholders' general meeting;

- to initiate proceedings against directors and senior management; and

- other powers specified in the articles of association.

Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the joint stock limited company and, where necessary, may engage an accounting firm to assist their work at the joint stock limited company's expense.

The above circumstances of disqualification from the directorship of the joint stock limited company shall be applicable to the supervisors of the joint stock limited company.

Manager and Senior Management

Under the PRC Company Law, a joint stock limited company shall have a manager who shall be appointed or removed by the board of directors of the joint stock limited company. The manager shall report to the board of directors of the joint stock limited company and may exercise the following powers:

- to manage the business and administration of the company and to arrange for the implementation of resolutions of the board of directors;

- to arrange for the implementation of the company's annual business plans and investment proposals;

- to formulate the establishment of the company's internal management bodies;

- to formulate the general administration system of the company;

- to formulate the company's detailed rules;

- to recommend the appointment and dismissal of deputy managers and person-in-charge of finance;

- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and

- other powers conferred by the board of directors or the articles of association.

The manager shall attend board meetings. According to the PRC Company Law, other senior management other than the manager includes deputy manager(s), person-in-charge of finance, board secretary of a listed company and other personnel as stipulated in the articles of association.

The above circumstances of disqualification from the directorship of the joint stock limited company shall be applicable to the manager and other senior management of the joint stock limited company.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and have the faithful and diligent duties to the joint stock limited company. Directors, supervisors and senior management of the joint stock limited company are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management of the joint stock limited company are prohibited from:

- misappropriation of the company's capital;

- depositing the company's capital into accounts under his own name or the name of other individuals;

- loaning company funds to others or providing guarantees in favor of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;

- entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;

- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;

- accepting and possessing commissions paid by a third party for transactions conducted with the company;

- unauthorized divulgence of confidential business information of the company; or

- other acts in violation of their duty of loyalty 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 duties resulting in any loss to the company shall be personally liable to the company.

Income generated by directors or officers from violation of such provisions of The PRC Company Law shall be reverted to the company.

Directors and officers should furnish with all truthful facts and information to the board of supervisors without obstructing the discharge of duties by the board of supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, managers and other officers shall have a duty of loyalty towards the company. They are required to perform their duties faithfully, protect the interests of the company and not use their positions for their own benefit. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

Under the PRC Company Law, a joint stock limited company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council. The joint stock limited company shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The joint stock limited company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the PRC Company Law, the joint stock limited company's accounting reports shall be available at the joint stock limited company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. It must also publish its accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital) of the joint stock limited company.

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, withdraw discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the joint stock limited company shall not be entitled to any distribution of profit. The premium received through issuance of shares at prices above par value and other income required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The reserve fund shall be applied to make up losses of the joint stock limited company, expand its business operations or be converted to increase the registered capital of the joint stock limited company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The joint stock limited company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Retirement of Accounting Firms

Pursuant to the PRC Company Law, the appointment or dismissal by the joint stock limited company of accounting firms responsible for the auditing of the joint stock limited company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The joint stock limited company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it engages without any refusal, withholding and misrepresentation.

The Special Regulations provide that a joint stock limited company shall engage an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from its appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting. The joint stock limited company which retains, removes or ceases to renew the accounting firm shall report to the CSRC for filing.

Distribution of Profits

According to the PRC Company Law, a joint stock limited company shall not distribute profits before losses are covered and the statutory common reserve is provided. Under the Mandatory Provisions and the Special Regulations, the joint stock limited company shall pay the overseas listed foreign shareholders the dividend and other amount denominated and declared in RMB and paid in foreign currency. A joint stock limited company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable by the joint stock limited company in respect of their overseas listed and foreign invested shares.

Dissolution and Liquidation

According to the PRC Company Law, a joint stock limited company shall be dissolved by reason of the following:

(i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (ii) the shareholders' general meeting has resolved to dissolve the company; (iii) the company is dissolved by reason of merger or division; (iv) the business license is revoked; the company is ordered to close down or be dissolved; or (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders, on the grounds that the company suffers significant hardships in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, it may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the joint stock limited company is dissolved in the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, a liquidation committee shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation committee shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors of the joint stock limited company may apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

- to dispose the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notices or public announcements;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and

- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within ten days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving the notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' general meeting of the joint stock limited or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debt shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before payments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to pay off its liabilities, it must apply to the people's court for a declaration of bankruptcy.

Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people's court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting of the joint stock limited company or the people's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abusing of their powers to accept bribes or other unlawful income and from misappropriating the company's properties.

A member of the liquidation group is liable to indemnify the joint stock limited company or its creditors in respect of any loss arising from his intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a joint stock limited company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed foreign shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the joint stock limited company by way of separate issuance within 15 months after obtaining the approval from the CSRC.

Loss of Share Certificates

If a registered share certificate of the joint stock limited company is lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After the people's court declares the invalidity of such certificate, the shareholder may apply to the joint stock limited company for a replacement share certificate.

A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions with the relevant provision set out in the Articles of Association.

Suspension and Termination of Listing

The PRC Securities Law (中華人民共和國證券法) provides for specific circumstances in which the trading of shares of a company on a stock exchange may be suspended or the listing for trading of its shares terminated if so decided by the relevant stock exchange.

Merger and Demerger

Merger of companies may either be merger by consolidation or merger by incorporation. Merger by consolidation means that the company absorbs other companies and the absorbed companies are dissolved. Merger by incorporation means that two or more companies merge into a newly incorporated company and all the merged parties are dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations relating to the issue and trading of shares and disclosure of information. The CSRC is the supervisory and regulatory institution for securities in the PRC. It is responsible for the formulation of the policies relating to securities, the drafting of securities laws and regulations, the supervision of the securities markets, market intermediaries and participants, the supervision and regulation of the domestic and overseas public offering of securities by Chinese companies, as well as the supervision and regulation of securities transactions.

The Provisional Regulations Concerning the Issue and Trading of Shares, which have taken effect from April 22, 1993, deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. According to these regulations, a company must obtain the approval of the Securities Committee (being currently the CSRC) to directly or indirectly offer its shares outside the PRC.

The Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies, which have taken effect from December 25, 1995, deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestically listed foreign shares and disclosure of information related to joint stock limited companies with domestically listed foreign shares.

The PRC Securities Law took effect on July 1, 1999 and was last revised on August 31, 2014. It is currently undergoing a new round of revisions. The PRC Securities Law is the first national securities law in the PRC, and comprehensively regulates activities in the PRC securities market. It is divided into 12 chapters and 240 articles regulating, among other things, 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 shall obtain prior approval from the State Council's securities regulatory authorities to list its shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) (the "Arbitration Law") passed by the Standing Committee of the NPC on August 31, 1994, became effective on September 1, 1995 and was amended on August 27, 2009. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of the joint stock limited company and, in the case of the Listing Rules, also in contracts between the issuer and each of its directors and supervisors, to the effect that any disputes or claims arising among the following parties will be referred to arbitration (i) between holders of shares and the issuer; and (ii) between holders of shares and the directors, supervisors, manager or other senior management of the company. Matters in arbitration include any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under our articles of association, the PRC Company Law or other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with its rules or the Hong Kong International Arbitration Center ("HKIAC") in accordance with its Securities Arbitration Rules. Once a claimant refers to a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC. In accordance with the Arbitration Regulations of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會仲裁規則) amended on November 4, 2014 and implemented on January 1, 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. The CIETAC is located in Beijing and has set up several branches and centers, such as Shenzhen, Shanghai, Tianjin, Chongqing and Hong Kong.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party may apply to the people's court for enforcement. A people's court shall order the cancellation of an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or exceeds the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (承認及執行外國仲裁裁決公約) (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. Such convention has taken effect from April 22, 1987 in the PRC. 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 all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC 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 on the principles of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

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. In accordance with 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.

OVERSEAS DIRECT INVESTMENT REGULATIONS

Pursuant to the Regulations on the Administration of Overseas Investment (境外投資管理辦法) promulgated by the MOFCOM which became effective on October 6, 2014, enterprises shall obtain approval from or register with the commerce authorities for conducting overseas investments according to such regulations.

Pursuant to Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (境內機構境外直接投資外匯管理規定) promulgated by the SAFE which became effective on August 1, 2009, upon obtaining approval for overseas investments, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments. According to the SAFE Notice, which came into effect on June 1, 2015, the administrative approval for foreign exchange registration approval under overseas direct investment has been cancelled, and the banks are entitled to review and carry out foreign exchange registration under foreign exchange registration under overseas direct investments directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investments via the banks.

In accordance with the Administrative Measures for Verification and Registration of Overseas Investment Projects (境外投資項目核准和備案管理辦法) amended by the NDRC and took effect on December 27, 2014, outbound investment projects involving sensitive countries and regions or sensitive industries shall be examined and approved by the NDRC. Outbound investments of US$2 billion or above by Chinese investors are subject to the approval of the State Council after being examined by the NDRC. Other outbound investment projects shall be reported to the NDRC or its provincial counterparts for record.

ANTI-MONEY LAUNDERING REGULATIONS

The Anti-money Laundering Law of the PRC (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 supervision over anti-money laundering, formulation of rules and regulations regarding anti-money laundering activities of financial institutions, monitoring and inspection of the anti-money laundering practice of financial institutions and investigations on suspicious transactions within their respective scope of authority. The persons in charge of the financial institutions shall be responsible for the effective implementation of internal control system regarding anti-money laundering. Financial institutions shall establish a client identification system and a system for keeping clients' identity information and transaction records, as well as a report system for transactions involving large sums of money and for dubious transactions according to applicable requirements.

Pursuant to the Anti-money Laundering Regulations for Financial Institutions (金融機構反洗錢規定) promulgated by the PBOC which became effective on January 1, 2007, financial institutions and their branches are required to establish a comprehensive internal control system for anti-money laundering, and set up a special anti-money laundering department or designate an internal department to implement the anti-money laundering measures, formulate internal anti-money laundering policies and procedures and organize anti-money laundering training for staff to enhance their anti-money laundering capability.

Pursuant to the Measures on the Administration over Client Identification and Maintenance of Client Identity Materials and Transaction Records 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) promulgated jointly by the PBOC, CBRC, CSRC and CIRC which became effective on August 1, 2007, financial institutions are required to establish a client identification system, maintain records for the identities and relevant transactions of all clients and keep all retail transaction documents and record books.

Pursuant to the Administrative Measures on Reporting Large-Sum Transactions and Dubious Transactions of Financial Institutions (金融機構大額交易和可疑交易報告管理辦法) promulgated by the PBOC which became effective on March 1, 2007, upon the detection of any transactions involving large sums of money or dubious transactions, the head office or the designated department of the financial institutions shall electronically report such transactions to the China Anti-money Laundering Monitoring and Analysis Center.

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 is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such preemptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The latest amended PRC Company Law removed the general provisions on statutory minimum registered capital, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Share Capital

Under the new Companies Ordinance, the concept of the nominal value (also known as par value) of shares of a Hong Kong company has been abolished, and the companies have increased flexibility to alter its share capital by (i) increasing its share capital; (ii) capitalizing its profits; (iii) allotting and issuing bonus shares with or without increasing its share capital; (iv) converting its shares into larger or smaller number of shares; and (v) cancelling its shares. The concept of authorized capital no longer applies to a Hong Kong company formed on or after March 3, 2014 as well. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary 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, appraisal must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons and other investment institutions as permitted by laws and regulations. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. In addition, pursuant to the "Announcement on Launching the Pilot Shanghai-Hong Kong Stock Connect" (關於開展滬港股票市場交易互聯互通機制試點的公告) ("Shanghai-Hong Kong Stock Connect Notice"), qualified PRC investors could buy specified overseas listed shares through systems such as Shanghai-Hong Kong Stock Connect.

Under the PRC Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25.0% of the total shares held by them, and the shares of the company held by such person 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 the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by the Bank and our controlling shareholder to the Hong Kong Stock Exchange described in the section entitled "Underwriting" in this prospectus.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance for acquisition of shares similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled "Appendix V — Summary of Articles of Association" to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Committee

Under the PRC Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a 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 committee 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 court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

The PRC Company Law provides that if any company encounters any serious difficulty in its operations or management to the extent that the interests of its shareholders would be seriously harmed if the company continued to exist, and such difficulty cannot be resolved by any other means, the shareholders holding 10% or more of the voting rights of the issued shares of the company may petition the people's court to dissolve the company. 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' Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice of a general meeting, where convened for the purpose of considering ordinary resolutions, is 14 days and, where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

Quorum for Shareholders' Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Information Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its annual financial statements (including but not limited to balance sheet, profit and loss account, statement of changes in financial position and other relevant annexure) 20 days before its shareholders' annual general meeting. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial position. The company must publish its financial statements and its financial statements must be verified by certified public accountants. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of overseas listed foreign shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on one hand, and a company incorporated in Hong Kong or its directors on the other, 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

Under the PRC Company Law, 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, there are no withholding taxes on dividends, interest or any other income, whether payable to residents or non-residents and the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors and supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days under certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

LISTING RULES

The Listing Rules provide additional requirements applicable to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal 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 first full year's financial results. The compliance advisor should provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's 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. The company should proactively discuss and seek advice and maintain regular contact with its compliance advisor and keep them apprised of developments in the company and proposed corporate actions. 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 outside Hong Kong frequently.

Accountant's Report

The accountant's report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

The 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. The company must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

Public Shareholdings

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

The 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 general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the requisite character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on Purchase and Subscription of Its Own Securities

Subject to governmental approvals and the provisions of the Articles of Association, the company may repurchase our own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the

Articles of Association is required for share repurchases. In seeking approvals, the company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences (if any) of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which they are aware. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of our existing issued H Shares.

Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix entitled "Appendix V — Summary of Articles of Association" to this prospectus.

Redeemable Shares

The company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

Pre-emptive Rights

Except under the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in a general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules, but only to the extent that the existing Shareholders of our Company have by special resolution in a general meeting given a mandate to the 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 the existing Domestic Shares and H Shares as of the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

Supervisors

The company 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.

The company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote 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 Bank or its subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires the Bank to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The Remuneration Committee of the 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 Bank and its Shareholders as a whole and advise Shareholders on how to vote.

Amendment to the Articles of Association

The company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the Mandatory Provisions relating to such Articles of Association.

Documents for Inspection

The company is required to make available at a place in Hong Kong for inspection by the public and shareholders of the company free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Bank;
- our Bank's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Bank;
- reports showing the number and nominal value of securities repurchased by our 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 Domestic Shares and H Shares); and
- for Shareholders only, copies of minutes of meetings of Shareholders.

Receiving Agents

The company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

The company 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 our share registrars not to register the subscription, purchase or transfer of any of our shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of the shares:

- agrees with the company and each Shareholder of the company, and the company agrees with each Shareholder of the company, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- agrees with the company, each Shareholder, Director, Supervisor, manager and officer of the company, and the company acting for itself and for each Director, Supervisor, manager and officer of the company 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 Company Law or other relevant laws and administrative regulations concerning the affairs of the Bank 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. Such arbitration shall be final and conclusive;
- agrees with the company and each Shareholder of the company that the H Shares in the share capital of the company are freely transferable by the holder thereof; and
- authorizes the company to enter into a contract on his behalf with each Director and officer of the company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

Legal Compliance

The company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Bank and its Directors, Officers and Supervisors

The company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to the company acting as agent for each Shareholder to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from any rights or obligations conferred or imposed by that contract, the Articles of Association, the Company Law or other relevant law and administrative regulations concerning the affairs of the company between the company and the Directors or officers and between a holderof H Shares and a Director or officer of the company, 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 must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of 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;

- the agreement to arbitrate is made by the Director or officer with our company on our own behalf and on behalf of each Shareholder; and

- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

A PRC company is also required to enter into a contract in writing with every supervisor containing terms substantially similar to those for directors. 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 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.

Subsequent Listing

The company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

English Translation

All notices or other documents required under the Listing Rules to be sent by the company to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in the English language, 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 of the bases upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Bank, subject to special conditions as the Hong Kong Stock Exchange considers 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 the Listing. Upon our listing on the Hong Kong Stock Exchange, the provisions of the Hong Kong Securities and Futures Ordinance, the Hong Kong Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Bank.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Bank.

SECURITIES ARBITRATION RULES

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing 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 purposes 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.

PRC LEGAL MATTERS

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out below is a summary of the principal provisions of the Articles of Association, the principal objective of which is to provide investors with an overview of the Articles of Association.

As the information contained below is in summary form, it does not contain all the information that may be important to potential investors.

The Articles of Association were adopted by our Shareholders in the Shareholders' general meeting held on May 31, 2016 and were approved by the CBRC on June 24, 2016. The Articles of Association 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 the Articles of Association empowering the Directors to allot and issue shares.

To increase the registered capital of the Bank, the proposal must be submitted by the shareholder(s) individually or in the aggregate holding 3% or more of the total shares of the Bank with voting rights (hereinafter referred to as the "Proposing Shareholders"), the Board or the Board of Supervisors for approval by a special resolution at a Shareholders' general meeting and for approval by a competent authority to implement.

Power to Dispose of the Assets of the 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 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' general meeting.

The validity of a disposition by the Bank of fixed assets shall not be affected by the breach of the above paragraph. For the purposes of the Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in such assets, but does not include the provision of such assets as a form of security.

REMUNERATION 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 emoluments include:

(i) remuneration for the Directors, Supervisors or senior management of the Bank;

(ii) remuneration for the Directors, Supervisors or senior management of the subsidiary companies of the Bank;

(iii) remuneration for those providing other services in connection with the management of the Bank and its subsidiaries; and

(iv) compensation to Directors or Supervisors for loss of their office or upon retirement.

Except under an aforesaid contract, no proceedings may be brought by a Director or Supervisor against the Bank for any benefit due to him in respect of the above matters.

Contracts concerning emoluments between the Bank and our Directors or Supervisors should provide that, in the event of a takeover of the Bank, the Directors or Supervisors shall, subject to the prior approval at the Shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Bank" referred to in this paragraph means either:

(i) a takeover offer made by any person to all shareholders; or

(ii) a takeover offer made by any person with a goal of making the offeror a controlling shareholder of the Bank.

See the meaning of "controlling shareholder" below.

If the relevant Director or Supervisor does not comply with the preceding provision, any sum so received by him shall belong to those persons who have sold their shares as a result of the said offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and shall not be paid out of the sum to be received by him.

LOANS TO DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

The Bank shall not, directly or indirectly, provide any loan or loan guarantee to the Directors, Supervisors, president and other senior management members of the Bank, nor shall the Bank provide the same to their related persons.

The preceding provision shall not apply in the following circumstances:

(i) the Bank provides loans or loan guarantees to its subsidiaries;

(ii) the Bank provides loans, loan guarantees or other funds to the Directors, Supervisors, president or other senior management members of the Bank pursuant to their employment contracts which were approved 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 responsibilities; and

(iii) the Bank may provide loans and loan guarantees to relevant Directors, Supervisors, president and other senior management members of the Bank and their related persons on normal commercial conditions.

If the Bank provides a loan in breach of the preceding provisions, 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 THE BANK

The Bank or its subsidiaries shall not offer any financial assistance at any time by any means to purchasers or prospective purchasers who will or who propose 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 or its subsidiaries shall not offer any financial assistance at any time by any means in order to reduce or discharge the obligations assumed by the aforesaid purchasers or prospective purchasers for acquisition or proposed acquisition of the Bank's shares.

The following activities shall not be deemed to be prohibited activities:

(i) the provision of financial assistance by the Bank where the financial assistance is given in good faith in the interest of the Bank, and the principal purpose in giving such financial assistance is not for the acquisition of shares, or the giving of such financial assistance is an incidental part of a major plan of the Bank;

(ii) the lawful distribution of the Bank's assets in the form of dividends;

(iii) the distribution of dividends in the form of shares;

(iv) the reduction of registered capital, repurchase of shares, and adjustment of shareholding structure, etc. in accordance with the Articles of Association;

(v) 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 provided out of the Bank's distributable profits); and

(vi) 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 provided out of the Bank's distributable profits).

"Financial assistance" for these purposes shall include, without limitation, the following means:

(i) gifts;

(ii) a 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 own neglect or default) or the release or waiver of any rights;

(iii) 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; or

(iv) 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 "incurring obligations" referred to herein shall include the incurring of obligations of an obligor which have arisen by entering into a contract or making an arrangement (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 THE BANK

Where the Directors, Supervisors, president or other senior management members of the Bank are, directly or indirectly, materially interested in any executed or proposed contracts, transactions or arrangements with the Bank (except the employment contracts between the Bank and its Directors, Supervisors, president and other senior management members), 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 interested Directors, Supervisors, president and other senior management members of the Bank have disclosed their interests to the Board in accordance with the requirements of the preceding provision, 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 interested Directors, Supervisors, president and other senior management members are in breach of their obligations.

If the related persons of a Director, Supervisor, president or other senior management members of the Bank are interested in any contracts, transactions or arrangements, the Director, Supervisor, president and other senior management members shall be deemed to be interested as well.

Before the Bank considers entering into contracts, transactions or arrangements for the first time, and if the Directors, Supervisors, president and other senior management members of the Bank have provided a written notice to the Board stating that they are interested 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 Directors, Supervisors, president and other senior management members concerned shall be deemed to have made the disclosure for the purpose of the above paragraphs to the extent as set out in the notice.

APPOINTMENT, REMOVAL AND RETIREMENT

The Board shall be composed of five to seventeen Directors. The exact number of members of the Board is to be determined by a Shareholders' general meeting, of which the number of independent Directors shall be no less than three and shall account for no less than one third of the total number of Directors.

The Board shall have one chairman and may have one vice chairman. The chairman and vice chairman shall be elected or dismissed by a majority of all Directors. Directors shall be elected, replaced or dismissed at a Shareholders' 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 term of office of an independent Director shall not be more than six years on an accumulative basis.

A Director shall be nominated by the Board or the shareholders holding individually or in aggregate 3% or more of the total shares of the Bank with voting rights. An independent Director shall be nominated by the Board, the Board of Supervisors or the shareholders holding individually or in aggregate 1% or more of the total shares of the Bank with voting rights. The qualification of a Director shall be approved by the banking regulatory authority of the State Council.

A Director may resign prior to the expiry of his/her term of office. When a Director intends to resign, he/she shall submit a written resignation to the Board. If the normal operation of the Bank is affected or the number of Directors is less than the statutory minimum number or the minimum number as provided in the Articles of Association or two-thirds of the Director members of the Board as determined by a Shareholders' general meeting of the Bank due to the resignation of a Director, the resignation letter shall not become effective until a new Director is elected to fill the vacancy left due to his/her resignation. Other than the circumstances set out above, the resignation of a Director shall become effective at the time of submission of the resignation letter to the Board.

A Director, Supervisor or senior management member of the Bank shall not be:

(i) a person without civil capacity or with limited capacity for civil acts;

(ii) a person who has been convicted of and sentenced to punishment for crimes of corruption, bribery, conversion or misappropriation of property or sabotage of the order of socialist market economy; or a person who has been deprived of his political rights for commission of a crime;

(iii) a person who has acted as director or factory manager or manager of a company or enterprise which has become bankrupt and is liquidated because of mismanagement, and who bears personal responsibility for the bankruptcy of such company or enterprise;

(iv) a person who has acted as legal representative of a company or enterprise the business license of which has been revoked or which has been ordered to cease operation for violation of law, and who bears personal responsibility for such revocation;

(v) a person with a relatively large amount of debt due and outstanding;

(vi) a person under investigation by a judicial organ for suspected violation of criminal law and such investigation has not yet been concluded;

(vii) a person who is removed from his position by another commercial bank or institution because of failure to fulfill his fiduciary duty;

(viii) a non-natural person;

(ix) a person who has been convicted by a competent department of the nation for violation of securities laws and regulations, and is involved in fraudulent or dishonest acts, and less than five years have passed since the date of such conviction;

(x) a shareholder or a person working in an entity of a shareholder whose borrowings from the Bank (not including borrowings with bank deposit certificates or government bonds pledged as security) exceeds the audited net equity held by him in the preceding year;

(xi) a person or an enterprise employee whose borrowings from the Bank are overdue; or

(xii) other persons as stipulated by the law, administrative regulations, departmental rules and other regulatory documents as well as the Articles of Association.

The validity of any act by a Director or senior management member 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.

BORROWING POWERS

The Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

(i) provisions which authorize the Board to formulate proposals for the issuance of bonds or other marketable securities and the listing of the Bank; and

(ii) provisions which provide that the issuance of bonds or other marketable securities and listing of the Bank shall be approved by the Shareholders' general meeting by a special resolution.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE BANK

The Bank shall amend the Articles of Association if any of the following circumstances occurs:

(i) any matters contained in the Articles of Association becoming in conflict with the provisions of the amended PRC Company Law, PRC Commercial Banking Law or other relevant laws, administrative regulations;

(ii) certain changes of the Bank resulting in inconsistency with the Articles of Association; or

(iii) a resolution being passed by the shareholders' general meeting to amend the Articles of Association.

If any amendments to the Articles of Association pursuant to a resolution of the Shareholders' general meeting are subject to the approval of the competent authorities, the Bank 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

Prior approval from the banking regulatory authority of the State Council is required for any entity or individual to purchase 5% or more of the total number of the issued shares of the Bank. Any Shareholder who owns 5% or more of the total shares of the Bank must report in writing to the Bank on the day it occurs, so that the Bank could apply for the approval of the banking regulatory authority of the State Council within five days from the date of the occurrence of the event.

If a shareholder owns 5% or more of the total number of the issued shares of the Bank (the "Excess Shares") without prior approval of the banking regulatory authority of the State Council, such shareholder holding the Excess Shares shall be subject to the necessary restrictions when exercising the shareholders' rights in respect of the Excess Shares as stipulated in the Articles of Association before the prior approval of the banking regulatory authorities of the State Council is obtained, including but not limited to:

(i) voting rights at the Shareholders' general meeting of the Bank (including voting rights at class shareholders' meetings) shall not be attached to the Excess Shares; and

(ii) rights to nominate Directors and Supervisors candidates as stipulated in the Articles of Association shall not be attached to the Excess Shares.

Notwithstanding the foregoing, holders of the Excess Shares shall not be subject to any restrictions in exercising other shareholders' rights under the Articles of Association. If a shareholder fails to obtain approval from the banking regulatory authorities of the State Council, such shareholder shall transfer the Excess Shares within a period prescribed by the banking regulatory authority of the State Council.

If the Bank proposes to change or nullify the 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 Articles of Association for the affected class of Shareholders.

The rights of a certain class of Shareholders shall be deemed to be changed or nullified in the following circumstances:

(i) to increase or decrease the number of the shares of that class, or to increase or decrease the number of the shares of other class which enjoy the same or more voting rights, distribution rights or other privileges;

(ii) 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;

(iii) to nullify or reduce the rights of that class of shares to receive payable dividends or cumulative dividends;

(iv) 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;

(v) 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;

(vi) to nullify or reduce the rights of that class of shares to receive amounts payable by the Bank in a particular currency;

(vii) to create 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;

(viii) to restrict the transfer and ownership of that class of shares, or increase the restrictions;

(ix) to grant the share subscription options or share conversion options of that or another class of shares;

(x) to increase the rights or privileges of other class(es) of shares;

(xi) any restructuring scheme of the Bank that may result in the assumption of disproportionate responsibilities by different classes of Shareholders during the restructuring; or

(xii) to revise or nullify the provisions in the chapter headed "special procedures for voting by class shareholders" of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at Shareholders' general meetings, shall nevertheless have the right to vote at class general meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) to (xii) above, but interested Shareholder(s) shall not be entitled to vote at class general meetings.

For the purpose of this section, interested Shareholder(s) shall have the following meaning:

(i) if the Bank has made a repurchase offer to all shareholders on pro rata basis or by means of public trading at the stock exchange in accordance with the Articles of Association, "interested Shareholder(s)" shall refer to the controlling Shareholders as defined in the Articles of Association;

(ii) if the Bank has made a repurchase of its own share by means of agreement outside the stock exchange in accordance with the Articles of Association, "interested Shareholder(s)" shall refer to the shareholders who are parties to the agreement; or

(iii) in a restructuring plan of the Bank, "interested Shareholder(s)" refers to those shareholders who assume less responsibilities than other shareholders of the same class or those shareholders who enjoy interests different from other shareholders of the same class.

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 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.

The procedures for convening a meeting for a certain class of Shareholder shall be the as similar as possible to the procedures for the Shareholders' general meeting and the provisions in the Articles of Association 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 shares are deemed to be Shareholders of different classes.

The special voting procedure for class Shareholders shall not apply to the following cases:

(i) upon the approval by way of a special resolution by Shareholders' general meeting, the Bank independently or simultaneously issues domestic shares and/or overseas listed shares every twelve months, provided that the amount of each of domestic shares and overseas listed shares intended to be issued is not more than 20% of the issued and outstanding shares of the respective class;

(ii) the Bank's plan on issuing domestic shares and overseas listed shares at the time of its incorporation, which is completed within fifteen months upon the date of approval from the securities regulatory and administrative authorities of the State Council; or

(iii) the securities regulatory and administrative authorities of the State Council has given approval for unlisted shares held by the Shareholders of the Bank to be traded in overseas listing.

ORDINARY AND SPECIAL RESOLUTIONS

Resolutions of Shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

Ordinary resolutions shall be approved by a simple majority of voting rights held by the Shareholders (including their proxies) present at the meeting.

Special resolutions shall be approved by more than two-thirds of voting rights held by the Shareholders (including their proxies) present at the meeting.

VOTING RIGHTS

The ordinary shareholders of the Bank have the right to attend or appoint a proxy to attend Shareholders' general meetings and vote thereat. A shareholder or a shareholder's proxy when voting at a Shareholders' general meeting may exercise voting rights in accordance with the number of voting shares and each voting share shall have one vote. Shares of the Bank held by the Bank shall not carry voting rights and shall not be included in the total number of voting Shares present at Shareholders' general meeting.

Except for procedural or administrative matters of Shareholders' general meeting which may be decided by resolution passed by a show of hands as determined by the chairman of the meeting in good faith, all other matters shall be decided by resolution passed by a poll.

On a poll taken at a meeting, a shareholder or his/her proxies entitled to two votes or above need not cast all the votes in the same way.

REQUIREMENT FOR GENERAL MEETINGS

Shareholders' general meetings include annual general meetings and extraordinary general meetings. The annual general meeting shall be held once a year within six months after the previous fiscal year end. If the meeting is deferred under special circumstances, the Bank shall promptly report to the banking regulatory authority of the State Council and explain the reason therefor.

An extraordinary general meeting shall be convened within two months from the date of occurrence of any of the following events:

(i) the number of Directors is less than the minimum number required by the laws or by the Articles of Association or is less than two-thirds of the number of members of the Board determined by the Shareholders' general meeting;

(ii) the outstanding loss of the Bank is at least one-third of the Bank's total paid-up share capital;

(iii) the Board of Supervisors proposes to convene the meeting;

(iv) shareholders who individually or jointly hold above 10% of the voting shares of the Bank (the "Requesting Shareholders") have requested to convene the meeting in writing; or

(v) any other circumstances as stipulated by the laws, administrative regulations, departmental rules and the Articles of Association.

The Board may convene an extraordinary general meeting if it deems necessary.

ACCOUNTS AND AUDIT

Financial and Accounting Systems

The Bank shall formulate prudent financial and accounting systems in accordance with the applicable laws, administrative regulations and the provisions of the Chinese accounting standards formulated by the financial competent authority of China.

The Board shall have an audit committee which is accountable to and shall report to the Board. The majority of members of the audit committee shall be independent Directors and the chairman shall be an independent Director. The committee shall have such responsibilities and powers as prescribed by the Articles of Association.

The Board shall at each shareholders' annual general meeting submit to Shareholders the financial and accounting reports prepared by the Bank as required by the relevant laws, administrative regulations, departmental rules and the securities regulatory and administrative authorities of the locality in which the Bank's shares are listed.

The Bank's financial and accounting reports shall be made available at the Bank for Shareholders' inspection 20 days before the date of annual general meeting. Each Shareholder shall be entitled to obtain a copy of the financial and accounting reports as referred to in the Articles of Association. Except as otherwise provided in the Articles of Association, the Bank shall send the aforesaid reports or Directors' report together with the balance sheet and income statement to holders of overseas listed shares of the Bank by prepaid mail at least 21 days before the date of annual general meeting at the address as recorded in the register of Shareholders.

The Bank shall not maintain separate accounting books except for statutory accounting books.

In addition to financial statements prepared in accordance with Chinese accounting standards and regulations, the Bank may also prepare its financial statements according to the international or overseas accounting standards in the place where the Bank's shares are listed. Material differences between the financial statements prepared according to two different accounting standards shall be explicitly explained in the notes to the financial statements. When distributing the after-tax profits in the fiscal year, the Bank shall base on the lower of the after-tax profits in the aforesaid two financial statements.

The Bank shall publish its financial reports twice each fiscal year, i.e. the interim financial report within 60 days after the end of the first six months of each fiscal year and the annual financial report within 120 days after the end of the each fiscal year.

Engagement of an Accounting Firm

The Bank shall engage an accounting firm that shall be qualified under the relevant government provisions and be independent, to audit the financial reports, to conduct verification of net assets and to provide other related consultancy services and other services.

The term for which the Bank engages an accounting firm shall be from the conclusion of the annual general meeting for the year to the conclusion of the next annual general meeting. The engagement of an accounting firm may be renewed.

The Board shall appoint an accounting firm to fill any casual vacancy in the office of the accounting firm before the convening of Shareholders' general meeting subject to the confirmation of the following Shareholders' general meeting. If the Bank has other serving accounting firms, such accounting firms shall continue to perform their duties as long as the vacancy remains unfilled.

The remuneration or the manner in which such remuneration is determined of an accounting firm shall be determined by Shareholders' general meeting. The remuneration of an accounting firm appointed by the Board to fill any vacancy shall be decided by the Board and shall be submitted to the Shareholders' general meeting for approval.

Change and Removal of an Accounting Firm

The Bank's appointment, removal and non-reappointment of an accounting firm shall be resolved at Shareholders' general meeting and shall be filed with the relevant securities regulatory and administrative authorities of the State Council.

Notwithstanding the terms of the contract between an accounting firm and the Bank, the Shareholders' general meeting may dismiss that firm by ordinary resolution before the expiration of term of office of the accounting firm. The dismissal shall not affect the rights of the accounting firm under the contract to claim for compensation against the Bank.

The Bank shall notify the accounting firm in advance before the dismissal or non-reappointment of such accounting firm. The accounting firm shall be allowed to present its views at the Shareholders' general meeting at which the dismissal is considered.

The Shareholders' general meeting shall abide by the following provisions when proposing to pass a resolution regarding the appointment of an accounting firm not currently serving the company to fill the vacancy of an accounting firm, or the renewal of terms of service of an accounting firm appointed by the Board to fill a vacancy, or the dismissal of an accounting firm before the expiry of its term:

(i) the proposal of appointment or dismissal shall be sent to the accounting firm to be appointed, to be or has been terminated in the relevant fiscal year prior to the issue of the notice of Shareholders'general meeting.

The termination of an accounting firm includes dismissal, resignation and retirement.

(ii) if the accounting firm being terminated requires the Bank to forward its written statement to Shareholders, the Bank shall take the following measures unless the written statement is not received in time:

1. to state on the notice issued for adoption of the resolution that an accounting firm about to leave its post has made a statement;

2. to deliver a copy of the statement to Shareholders as an appendix to the notice of meeting in accordance with the Articles of Association.

(iii) if the statement of the accounting firm is not delivered in accordance with paragraph (ii) above, the relevant accounting firm may request such statement to be read at the Shareholders' general meeting and may make further appeals.

(iv) the accounting firm leaving its post shall be entitled to attend the following meetings:

1. the Shareholders' general meeting at which its term of service would otherwise have expired;

2. the Shareholders' general meeting for filling the vacancy caused by its dismissal;

3. the Shareholders' general meeting convened as a result of its voluntary resignation.

The accounting firm leaving its post shall be entitled to receive all notices of the aforementioned meetings and other information relating to such meetings and shall also be entitled to present its views at the meetings on matters in relation to its previous engagement as the accounting firm of the Bank.

Resignation of an Accounting Firm

Any accounting firm may resign its office by depositing at the Bank's legal residence a written resignation notice which shall become effective on the date of such deposit or on such later date as stipulated in such notice. Such notice shall include the following:

1. a statement to the effect that there are no circumstances in relation to its resignation which should be brought to the notice of the Shareholders or creditors of the Bank; or

2. a statement of any relevant situations which needs to be brought to the notice.

The Bank shall send a copy of the notice to the relevant governing authority within 14 days upon receipt of the written notice. If the notice contains a statement under item 2 above, a copy of such statement shall be placed at the Bank for Shareholders' inspection. The copy of such statement shall also be sent by prepaid mail to holders of overseas listed Shares of the Bank at the address as recorded in the register of Shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances which should be brought to the notice, the accounting firm may require the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

Where the accounting firm resigns, it shall explain to the Shareholders' general meeting whether there is any impropriety on the part of the Bank.

NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

When the Bank is to convene Shareholders' general meeting, it shall issue a written notice, forty-five days prior to the date of the meeting, to all Shareholders. Shareholders who intend to attend the Shareholders' general meeting shall provide a written reply of attendance to the Bank twenty days before the general meeting is convened.

The Requesting Shareholders shall have the right to submit interim proposals in writing ten days before the Shareholders' general meeting to the convenor. The convenor shall within two days upon receiving such proposals give supplemental notice of the Shareholders' general meeting.

The Bank shall calculate the proportion of voting shares held by Shareholders who intend to attend the meeting based on the written replies received twenty days before the Shareholders' general meeting that is convened by the Bank. Where the proportion of voting shares held by Shareholders who intend to attend the meeting fails to reach above half of the total voting shares of the Bank, the Bank shall inform the Shareholders within five 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 in compliance with the following requirements:

(i) in written form;

(ii) specify the designated date, location and time of the meeting;

(iii) state the matters and proposals to be considered at the meeting;

(iv) make a prominent statement that Shareholders entitled to attend and vote at the Shareholders' general meeting may entrust one or more proxies, who do or does not need to be a Shareholder of the Bank, to attend the meeting and vote on their behalf;

(v) provide all necessary information and explanation to enable Shareholders to make reasonable judgements on the matters to be discussed. This means that when the following matters, which shall include, but shall not be limited to: any proposals of 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;

(vi) where any Director, Supervisor and other senior management member have an important interest in matters to be discussed, the nature and extent of that interest shall be disclosed. Further, where the impact of the matters to be discussed on such Director, Supervisor, president and other senior management members who are Shareholders is different from the impact on other Shareholders of the same class, the difference shall be explicitly explained;

(vii) contain the full text of any special resolution proposed to be passed at the meeting;

(viii) specify the place and time for the delivery of the proxy letter of the meeting;

(ix) specify the record date of equity interest for eligible Shareholders for attending the Shareholders' general meeting; and

(x) specify the name and phone number of the person for meeting enquiry;

Notice of Shareholders' general meeting shall be served to Shareholders (whether or not entitled to vote at the Shareholders' general meeting) by personal delivery or prepaid mail to their addresses as shown in the register of Shareholders.

For holders of domestic shares, notice of Shareholders' general meeting may be issued 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 to fifty days 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.

Where, as a result of accidental omission, a notice of meeting is not given to a person who is entitled to receive such notice or where such person has not received the notice, the meeting or any resolution adopted at the meeting shall not be invalidated as a result.

Except for those matters which shall be resolved by way of special resolution as stipulated by the law, administrative regulations, departmental rules and the Articles of Association, other matters to be approved at the Shareholders' general meeting shall be resolved by way of ordinary resolution.

The following matters shall be resolved by shareholder's general meeting by way of special resolution:

(i) an increase or reduction of the registered capital of the Bank;

(ii) the merger, division, dissolution, liquidation or any other change in the corporate form of the Bank;

(iii) the issuance of bonds or other negotiable securities by the Bank and listing;

(iv) Share repurchases by the Bank;

(v) amendments to the Articles of Association;

(vi) stock incentive plans;

(vii) establishment of material legal person entities, significant merger and acquisition, significant investment, significant assets purchase, significant assets disposal, significant assets write-off and significant provision of guarantees; and

(viii) any other matters as required by the law, administrative regulations, departmental rules and the Articles of Association, or other matters that, according to the Shareholders' general meeting by way of an ordinary resolution, may have a material effect on the company and should therefore be adopted by a special resolution.

TRANSFER OF SHARES

Unless otherwise specified by laws, administrative regulations and departmental rules or relevant regulations of securities regulatory and administrative authorities of the locality where shares of the Bank are listed, the shares of the Bank may be transferred freely without any lien attached. To transfer the overseas listed shares listed in Hong Kong, the transferor shall register with the Hong Kong stock registration organization appointed by the Bank.

All the fully paid-up overseas listed Shares that are listed in Hong Kong Stock Exchange can be freely transferred in accordance with the Articles of Association. Unless the requirements under the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal. Shares of the Bank held by the promoters shall not be transferred within one year from the date of incorporation of the Bank. Shares that have been issued before public offering of the Bank shall not be transferred within one year from the date that the Shares of the Bank are listed on a stock exchange. Directors, Supervisors and the senior management members of the Bank shall declare to the Bank that their shareholdings in the Bank and any alternation of such shareholdings. They shall not transfer more than 25% of all the Shares held in the Bank in any particular year during their tenure. They shall not transfer the Shares of the Bank held within one year from the date of the Bank's listing on a stock exchange, or six months after their termination of employment with the Bank.

No modifications of registration in the share register caused by transfer of registered shares shall be carried out within thirty days prior to the convening of Shareholders' general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by the securities regulatory and administrative authorities of the locality in which the Bank's shares are listed, those provisions shall prevail.

PLEDGE OF SHARES

The Bank shall not accept any pledge with its own Shares as the subject matters.

If the Shareholders holding 3% or more of the total Shares with voting rights 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 and administrative authorities, and inform the Board of the Bank in advance. These Shareholders shall file a written report to the Bank on the date of the occurrence of the event.

If the Shareholders' loan balance at the Bank exceeds the audited net value of the equity they hold in the previous year, and do not provide a bank certificate of deposit or treasury pledged collateral, they must not pledge their Shares in the Bank.

POWER OF THE BANK TO PURCHASE ITS OWN SHARES

The Bank may repurchase its outstanding Shares in the following circumstances in accordance with the law, administrative regulations, departmental rules and the Articles of Association and subject to the approval of relevant governing authority:

(i) reducing the registered capital of the Bank;

(ii) merging with any other companies holding Shares of the Bank;

(iii) granting the Shares to employees of the Bank as a reward;

(iv) being requested to repurchase the Shares of the Bank by the Shareholders who object to the resolutions adopted at the Shareholders' general meeting concerning merger or division of the Bank; or

(v) other circumstances permitted by the law, administrative regulations and relevant governing authorities.

Where the Bank repurchases its shares under circumstances (i) to (iii), it shall obtain approval from Shareholders' general meeting. Where the Bank repurchases its Shares under circumstance (i), it shall cancel the Shares within ten days from the date of repurchase. Where the Bank repurchases its Shares under circumstances (ii) and (iv), the Bank shall transfer or cancel the Shares within six months thereafter. The Shares repurchased by the Bank under circumstance (iii) shall not exceed 5% of the total issued Shares of the Bank. The funds for repurchase shall be paid from the after-tax profits of the Bank. The Shares redeemed shall be transferred to the employees within one year.

Changes in the registration of the Bank as a result of the cancelling of certain Shares due to the Shares repurchase by the Bank shall be registered with the relevant administration bureau for industry and commence for registration of the change. The aggregate par value of the cancelled Shares shall be deducted from the Bank's registered capital.

The Bank may repurchase its Shares in any of the following ways after being approved by relevant competent authorities:

(i) making a repurchase offer pro rata to all Shareholders;

(ii) repurchasing by means of public trading on a stock exchange;

(iii) repurchasing by an agreement outside of any stock exchange; or

(iv) other methods as permitted by the law, administrative regulations and by relevant competent authorities.

Where the Bank repurchases its Shares by an agreement outside of any stock exchange, the prior approval of Shareholders' general meeting shall be obtained in accordance with the Articles of Association. The Bank may rescind or amend the contracts entered into in the aforementioned ways or waive its rights under a contract entered into in the aforementioned ways with the prior approval of Shareholders' general meeting obtained in the same manner.

A contract to repurchase Shares includes (without limitation to) an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares.

The Bank shall not assign a contract to repurchase its Shares or the rights thereunder.

For the redeemable shares which can be purchased by the Bank, other than such purchases made through the stock exchange or by tender, the purchase price shall be limited to a certain single maximum price. If such purchases are made by tender, tenders shall be available to all Shareholders alike.

RIGHT OF A SUBSIDIARY OF THE BANK TO OWN SHARES IN THE BANK

There are no provisions in the Articles of Association preventing a subsidiary of the Bank from owning any of Shares in the Bank.

DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

The Bank may distribute dividend in forms of cash and Shares.

The dividend distribution policy of the Bank shall be focused on generating reasonable return for investors. The dividend distribution policy shall maintain its continuity and stability and, meanwhile, give consideration to the long-term interests of the Bank, the interests of the shareholders as a whole and the sustainable development of the Bank. Cash shall be the main form of dividend distributed by the Bank. The Bank may distribute interim dividend if the situation permits.

Except under special circumstances, the Bank shall distribute dividend to shareholders of ordinary shares in the form of cash every year with an aggregate amount not less than 10% of the net profits of the shareholders of the Bank. The special circumstances refer to circumstances where:

(1) the profit distribution is restricted by laws, regulations and regulatory requirements;

(2) cash dividend distribution may adversely affect the long-term interests of the shareholders.

Under circumstances where the Bank has sound operation, but the Board of Directors determines that the share price of the Bank does not match the size of its share capital and share dividend is beneficial to the interests of the shareholders of the Bank as a whole, a plan on dividend distribution in the form of share may be formulated and implemented upon approval at the Shareholders' general meeting, provided that the requirements on cash dividend distribution set out above have been met.

If the Bank does not distribute cash dividend under special circumstances, the profit distribution plan proposed to the Shareholders' general meeting for consideration and deliberation shall include the reasons for such no dividend distribution and the use of the undistributed fund, and corresponding disclosure shall be made in the periodic reports.

In the case of force majeure events such as wars and natural disasters, changes in external business environment that have material effect on the Bank's business performance, or material changes in the Bank's own operation situations, the Bank may adjust the profit distribution policies herein.

The Bank shall appoint receiving agents on behalf of holders of the overseas listed Shares to receive on behalf of such Shareholders dividends declared and all other monies payable by the Bank in respect of their overseas listed Shares.

The receiving agents appointed by the Bank for holders of overseas listed shares which are listed in Hong Kong shall be trust companies registered under the Trustee Ordinance of Hong Kong.

PROXIES

A Shareholder may attend a Shareholders' general meeting in person and shall be entitled to appoint one or more proxy to attend and vote on his behalf. Such proxy does not have to be Shareholder.

According to the appointment of the Shareholder, a proxy so appointed shall:

(i) have the same right as the Shareholder to speak at the Shareholders' general meeting;

(ii) have authority to demand or join in demanding a poll; and

(iii) have the right to vote by a show of hands or on a poll, but when more than one proxy has been appointed, the proxies may only exercise the voting rights when a poll is taken.

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 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 power of attorney authorizing the proxy to vote, be placed at the Bank's domicile or any other place designated in the notice of Shareholders' general meeting.

In the event that the appointing Shareholder is a legal person, the Shareholder shall be represented at the Shareholders' general meeting of the Bank by the legal representative or other persons authorized by the resolution of its Board or any other decision-making body of such appointing Shareholder. The legal representative of the Shareholder may appoint proxies to attend such meeting.

The blank proxy form issued by the Board of the Bank to the Shareholder for the appointment of proxies shall freely allow the Shareholder to instruct his/her proxy to vote as he/she sees fit (voting in the affirmative or negative), and to give separate instructions for each resolution that will be voted on at the meeting.

If the appointing Shareholder has passed away, lost his/her capacity to act, withdrawn the appointment, withdrawn the authorization of the signed proxy form or has transferred all of his/her relevant shares in respect of which the proxy is given 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

The Bank shall have the right to cease delivering dividend warrants to the Shareholders of overseas listed shares by mail, but such right can only be exercised after the divident warrants has not been redeemed twice consecutively. However, if a dividend warrant fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly.

The Bank shall have the right to sell the shares of the Shareholders of overseas listed shares who are untraceable through the methods the Board deems appropriate and subject to the following conditions:

(i) the Bank has distributed dividends on such shares for at least three times in a period of twelve years and the dividends are not claimed by anyone during that period; and

(ii) 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 securities regulatory and administrative authorities of the locality in which the Bank's shares are listed.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)

The Bank shall keep a complete register of shareholders.

The Bank may, pursuant to an understanding or agreement reached between the securities regulatory and administrative authorities under the State Council and an overseas securities regulatory and administrative authorities, keep its register of shareholders of overseas listed shares and appoint an overseas agent to manage such register. The original register of shareholders of the overseas listed shares listed in Hong Kong shall be maintained in Hong Kong. The Bank shall keep at its domicile a duplicate of the register of shareholders of overseas listed shares. The appointed overseas agent shall ensure the consistency between the original and duplicate of such register at all times. In the event of any inconsistency between the original and duplicate of the register of shareholders of overseas listed shares, the original shall prevail.

When the Bank convenes Shareholders' general meeting, distributes dividends, undertakes liquidation, and carries out other actions for which shareholder identification is needed, the Board or the convener of the Shareholders' general meeting shall determine the record date of equity interest. Shareholders whose names appear in the register upon the end of the record date of equity interest are Shareholders for the Bank.

Any person who objects to the register of shareholders and requests to have his/its name registered or removed from the register of shareholders may apply to a court of competent jurisdiction for amending the register.

The Shareholders of the Bank holding ordinary Shares shall enjoy the following rights:

(i) the right to dividends and other types of interest distributed in proportion to the number of shares held;

(ii) to legally request, convene, preside over, personally attend or appoint a proxy to attend Shareholders' general meetings, and to exercise their voting rights;

(iii) the right of supervision over the Bank's operations, and the right to present proposals or to raise inquires;

(iv) the right to transfer, bestow, pledge or otherwise deal with Shares in accordance with the laws, administrative regulations, departmental rules and the provisions imposed by the securities regulatory and administrative authorities of the locality in which the Bank's shares are listed and provisions of the Articles of Association;

(v) the right to obtain relevant information in accordance with the laws, administrative regulations, departmental rules and provisions of the Articles of Association, including:

1. the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy;

2. the right to inspect, free of charge, and, subject to payment of a reasonable charge, obtain a copy of the following information in the specified place during the business hour of the Bank:

(1) all parts of the register of Shareholders;

(2) the personal information of the Directors, Supervisors, president and other senior management personnel of our Bank;

(3) status of the Bank's share capital;

(4) 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 fiscal year, as well as all the expenses paid by the Bank in relation to such repurchases;

(5) minutes of the Shareholders' general meetings;

(6) the special resolutions of the Shareholders' general meetings;

(7) the latest audited financial and accounting reports, Directors' reports, and report of the Board of Supervisors; and

(8) a copy of the latest annual return already submitted to the administration for industry and commerce.

The Bank shall keep at its domicile all documents under item (1) to (8) other than under item (2) above, for the free inspection by the public and shareholders of overseas listed shares (documents under item (5) may only be inspected by Shareholders). The Bank may refuse any inspecting or copying request which involves commercial secrets and insider information of the Bank.

(vi) 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 termination or liquidation;

(vii) 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

(viii) to have other rights conferred in accordance with the laws, administrative regulations, departmental rules and the Articles of Association.

QUORUM FOR THE GENERAL MEETINGS AND SEPARATE CLASS MEETINGS

The Bank shall calculate the proportion of voting shares held by Shareholders who intend to attend the meeting based on the written replies received twenty days before the Shareholders' general meeting that is convened by the Bank. Where the proportion of voting shares held by Shareholders who intend to attend the meeting fails to reach above half of the total voting shares of the Bank, the Bank shall inform the Shareholders within five 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.

The Bank may convene a meeting for a certain class of Shareholders if the number of Shareholders intending to attend the meeting represent above one-half of the total number of shares with voting rights in that class. If this requirement is not met, the Bank shall, within five 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 as required under the laws, administrative regulations or the provisions stipulated by the securities regulatory and administrative authorities located at the places where the Bank's shares are listed, when exercising his rights as a shareholder, a controlling shareholder of the Bank shall not make decision on the following issues that are detrimental to the interest of all or some of the shareholders by exercising their voting rights:

(1) relieving a Director or Supervisor of their responsibility to act in good faith for the best interests of the Bank;

(2) approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving the Bank of its assets in any form, including (but not limited to) any business opportunities that are advantageous to the Bank; or

(3) 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 the Articles of Association.

The "controlling shareholder(s)" shall refer to the person(s) satisfying any of the following conditions:

1. the person may elect more than half of the Directors when acting alone or in concert with others;

2. the person may exercise or control the exercise of 30% or more of voting rights of the Bank when acting alone or in concert with others;

3. the person holds 30% or more of the outstanding shares of the Bank when acting alone or in concert with others; or

4. the person may *de facto* control the Bank in any other manner when acting alone or in concert with others.

PROCEDURES ON LIQUIDATION

In any of the following circumstances, our Bank shall be dissolved in accordance with the law:

(1) if the Shareholders' general meeting resolves to do so;

(2) if a dissolution is necessary as a result of a merger or division of the Bank;

(3) if the business license of the Bank is revoked or if it is ordered to cease operation or if its business license is canceled in accordance with the laws;

(4) the Bank is declared bankrupt due to its failure to repay debts due; or

(5) the Bank encounters significant difficulties in its operation and management, under the circumstance of which continuing existence will cause material harm to shareholders' interests, and the problems could not be solved by other means.

Where the Bank is dissolved in accordance with items (1) or (5), a liquidation team shall be established pursuant to laws within fifteen days of the date on which the banking regulatory authority under the State Council grants an approval, and the team members shall be determined by the Shareholders' general meeting by way of an oridnary resolution. Where the Bank is dissolved in accordance with item (3), the banking regulatory authority under the State Council shall make arrangements for shareholders, the relevant institutions and the relevant professionals to form a liquidation team to carry out liquidation. Where the Bank is dissolved in accordance with item (4), the people's court shall, in accordance with provisions of relevant laws, make arrangements for shareholders, the relevant institutions and the relevant professionals to form a liquidation team to carry out liquidation.

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 has 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, the functions and powers of the Board of the Bank shall be terminated immediately.

The liquidation team 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 team, the business of the Bank and the progress of the liquidation, and shall present final report to the Shareholders' general meeting at the end of the liquidation.

The liquidation team shall give notice to the creditors within 10 days of its establishment and publish an public announcement of the establishment in a newspaper within 60 days from its establishment.

The creditors shall explain the matters related to their claims and provide supporting materials when declaring their claims. The liquidation team shall register the claims so reported.

The liquidation team shall not settle any debt with the creditors during the period of claim declaration.

OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

General Provisions

After approval by the Shareholders' general meeting and approval by the banking regulatory and administrative authorities under the State Council, our Articles of Association shall become effective from the date of initial public offering and listing of the Bank. From the date on which it become effective, our Articles of Association 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.

Our Bank may, based on its operating and development needs and in accordance with the laws and administrative regulations, subject to resolutions adopted in the Shareholders' general meeting and the approval by the relevant competent authorities, increase its registered capital in the following ways:

(1) public offering of shares;

(2) non-public offering of shares;

(3) distributing new shares to existing Shareholders;

(4) placing new shares to existing Shareholders;

(5) covering capital reserve funds into share capital; or

(6) other methods regulated or permitted by laws and administrative regulations or approved by relevant competent authorities.

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 of Association.

The Bank must prepare a balance sheet and a list of assets when it intends to reduce its registered capital.

Holders of ordinary shares of our Bank shall have the following obligations:

(1) to abide by the laws, administrative regulations and our Articles of Association;

(2) to contribute to the share capital as determined by the number of shares subscribed by them and the method of subscription;

(3) not to withdraw their contributed share capital except in circumstances allowed by the laws and administrative regulations;

(4) shareholders shall support the reasonable measures suggested by the Board to raise the capital adequacy ratio of our bank when such ratio is lower than the mandatory standard;

(5) not to abuse the shareholder's rights to harm the interest of the Bank or any other shareholders, and to be liable for indemnity in accordance with the laws if a shareholder of the Bank abuses his shareholders' rights and causes loss to the Bank or other shareholders;

(6) not to abuse the Bank's independent status as a legal person and the shareholders' limited liability to harm the interest of the creditors of the Bank, and to be jointly and severally liable for the debts of the Bank if a shareholder abuses the Bank's independent status as a legal person and the shareholders' limited liability and evades the repayment of debts, resulting in material damages to the interest of the creditors of the Bank;

(7) Neither the controlling shareholder nor the de facto controller of the Bank may damage the interest of the Bank by taking advantage of its affiliate relationship, and shall be liable for indemnity if such shareholder or controller is in breach of the above provision and causes loss to the Bank; and

(8) to assume other obligations required by the laws, administrative regulations, departmental rules and our Articles of Association.

Directors' Qualification Shares

A Director shall be a natural person and is not required to hold any shares of the Bank.

Board

The Board is accountable to the Shareholders' general meeting and shall perform the following duties and powers:

(1) to convene and report on its performance at the Shareholders' general meetings;

(2) to implement resolutions adopted at the Shareholders' general meetings;

(3) to make decisions on the Bank's development strategies, business plans and investment plans;

(4) to consider and approve the capital fund management plans and the risk-based capital allocation plans of the Bank;

(5) to formulate the Bank's annual financial budgets and annual accounting; the Bank's profit distribution plans and loss recovery plans; proposals on the increase or reduction of the Bank's registered capital; the Bank's plans of issuance of bonds or other marketable securities and listing plans; plans for merger, division, dissolution, liquidation or other change in form of the Bank; plans for repurchase of the Bank's shares; plans for material change in equity interest or financial reorganization; capital replenishment plans;

(6) to formulate the general management policies, risk management and internal control policies of the Bank and supervise the implementation of such policies; to approve the internal audit rules of the Bank;

(7) to listen to the risk management report of senior management and evaluate the effectiveness of the risk management of the Bank in order to improve the risk management;

(8) to formulate proposals for amendments to our Articles of Association, rules of Shareholders' general meeting and the Board;

(9) to approve the terms of reference proposed by the President;

(10) to decide on matters including the establishment of major legal entities, major corporate merger and acquisition, major investment, major acquisition and disposal of asset, major asset write-off and major guarantee within the scope authorized by the Shareholders' general meeting;

(11) to decide on or authorize the President to decide on matters including other external investments, acquisition and disposal of assets, asset write-off and external guarantees within the terms of reference of the Board;

(12) to appoint and dismiss the President and the secretary to the Board according to the proposal of the chairman of the Board;

(13) to appoint and dismiss the deputy president and other senior management members according to the proposal of the President;

(14) to elect the chairman and members of the nomination and remuneration committee proposed by Requesting Shareholders, the chairman of the Board, one-third or more of directors or half or more (at least two) of independent directors; to elect the chairman and members of other board committees (excluding the chairman of strategic planning committee) proposed by the nomination and remuneration committee;

(15) to propose the performance appraisal system for directors and compensation packages for directors and supervisors (opinions of the Board of Supervisors on the compensation packages for supervisors shall be sought) to the Shareholders' general meeting for approval;

(16) to decide on the compensation, appraisal, incentive and punishment of senior management;

(17) to decide on the establishment of internal departments, tier-1 domestic and overseas branches, other branches and divisions directly under the head office and any overseas entities of the Bank;

(18) to evaluate and improve the corporate governance regularly;

(19) to formulate stock incentive schemes;

(20) to manage our information disclosure;

(21) to propose the engagement, dismissal and discontinuance of engagement of accounting firm for approval by the Shareholders' general meeting;

(22) to approve the proposals submitted by board committees;

(23) to approve or to authorize the connected transactions management committee of the Board to approve related party transactions (other than those which shall be approved by the Shareholders' general meeting as required by laws), and report to the Shareholders' general meeting on the implementation status of related party transactions management systems and particulars of related party transactions;

(24) to listen to the work reports of the president of the Bank in accordance with the relevant regulatory requirements to ensure that all directors are timely and fully informed of relevant information for the performance of their duties, and to examine the performance of the senior management to ensure the effective performance of their management functions;

(25) to communicate execution and rectification of the regulatory suggestions from the banking regulatory authorities of the State Council to the Bank; and

(26) to perform other duties as required by laws, administrative regulations, department rules and the Articles of Association or authorized by the Shareholders' general meeting.

Regular Board meetings shall be convened for at least 4 times a year. In principle, the Board meeting shall be convened once a quarter. Notices of regular Board meetings shall be sent to all directors and supervisors in writing fourteen days prior to the convening date of relevant meetings.

A Board of Directors' meeting shall not be conducted unless more than half of the directors are present. Every director shall have one vote.

Board of Supervisors

The Bank shall have a Board of Supervisors. The Board of Supervisors is a supervisory entity of the Bank and shall be responsible to the Shareholders' general meeting. The Board of Supervisors shall be composed of three to thirteen supervisors as determined by the Shareholders' general meeting, wherein the external supervisors and the supervisors representing employees shall be no less than one-third of the total number of supervisors while the number of external supervisors shall be no less than two. Where the number of supervisors representing employees is less than one-third of members of the Board of Supervisors, a by-election shall promptly be held through an employee representative congress or other democratic procedures.

The Board of Supervisors shall have a chairman. The Chairman of the Board of Supervisors shall be elected or dismissed by two-thirds or more members of the Board of Supervisors and shall serve a term of office upon the approval of the banking regulatory authority under the State Council.

Each supervisor shall serve a term of three years and may serve consecutive terms if so re-elected after his term of office is expired.

The Board of Supervisors shall perform the following duties:

(1) to supervise the performance of the Board of Directors and senior management, to supervise and question the duty of performance of directors and senior management members, and to urge directors and senior management members to correct their acts which impair the benefits of the Bank;

(2) to propose the dismissal of or initiate litigation against the directors and senior management members who breach laws, administrative regulations, our Articles of Association or the resolution of the Shareholders' general meeting;

(3) to examine and supervise the financial activities of the Bank;

(4) to supervise the business decisions, risk management and internal control of the Bank, to guide the internal audit department of the Bank to independently perform its duties of audit and supervision, and to carry out the business management and performance appraisal for the internal audit department;

(5) to propose to convene an extraordinary Shareholders' general meeting;

(6) to submit proposals to the Shareholders' general meeting;

(7) to formulate proposals for amendment to the rules of procedures of the Board of Supervisors;

(8) to supervise the implementation of policies and general management system of the Bank;

(9) to nominate supervisors representing shareholders, external supervisors and independent directors;

(10) to conduct audit on resigning directors and senior management members as necessary;

(11) to communicate with the directors on behalf of the Bank;

(12) to review financial reports, operation reports and profit distribution proposals submitted by the Board of Directors to the Shareholders' general meeting, and to engage, on behalf of the Bank, certified accountants and auditors to reexamine such reports if any problems are identified; and

(13) to perform other duties as regulated by relevant provisions of laws, administrative regulations, departmental rules and our Articles of Association or authorized by the Shareholders' general meeting.

The resolution made by the Board of Supervisors shall be passed by more than two thirds of the members of the Board of Supervisors.

President

The Bank shall have one President and several Vice Presidents, and may have other senior management members upon the approval of the Board.

The President of the Bank shall exercise the following functions and powers:

(1) to take charge of the operation and management of the Bank, to make arrangements to implement board resolutions, and to report his work to the Board;

(2) to establish the specific rules and regulations of the Bank (other than internal audit rules and regulations);

(3) to formulate the operation plans and investment plans of the Bank, and to make arrangements for their implementation after they are approved by the Board;

(4) to formulate policies and basic management systems of the Bank, and to make proposals to the Board;

(5) to formulate the annual financial budget plans and annual accounting, capital management plans, risk capital allocation plans, profit distribution plans, loss appropriation plans, plans for increase or reduction of registered capital, plans for issuance of bonds or other marketable securities and listing plans, and shares repurchase plans, and to make proposals to the Board;

(6) to formulate plans for setting up the internal bodies of the Bank, and plans for setting up the domestic and overseas tier-1 branches and branches directly under the head office, and other institutions directly under the head office and overseas institutions of the Bank, and to make proposals to the Board;

(7) to propose appointment or dismissal of Vice Presidents or other senior management members (other than Secretary to the Board) to the Board;

(8) to appoint or dismiss the officers-in-charge of the internal bodies of the Bank (other than the officer-in-charge of the internal audit department) and the officers-in-charge of the domestic and overseas tier-1 branches and branches directly under the head office, and other institutions directly under the head office and overseas institutions of the Bank;

(9) within the scope of authority granted by the Board to authorize Vice Presidents and other senior management members, and the officers-in-charge of the internal bodies and the officers-in-charge of the domestic and overseas tier-1 branches and branches directly under the head office, and other institutions directly under the head office and overseas institutions of the Bank to carry out the day-to-day management and operation activities;

(10) to decide on plans for the remuneration and performance appraisal of the officers-in-charge of the internal bodies of the Bank (other than the officer-in-charge of the internal audit department) and the officers-in-charge of the domestic and overseas tier-1 branches and branches directly under the head office, and other institutions directly under the head office and overseas institutions of the Bank, and to appraise the levels of their remuneration and their performance;

(11) to decide on or authorize lower-level managers to appoint or dismiss the staff of the Bank;

(12) to decide on plans for the wages, benefits and awards and punishment of the staff of the Bank;

(13) to propose to convene an extraordinary Board of Directors' meeting;

(14) to take contingency measures in the interests of the Bank where there is a bank-run or any other material emergencies relating to the business operation of the Bank, and to immediately report to the banking regulatory authority under the State Council, the Board and the Board of Supervisors; and

(15) other functions and powers to be exercised by the President, as prescribed in laws, administrative regulations, departmental rules and our Articles of Association or determined by the Shareholders' general meeting or Board of Directors' meetings.

DISPUTE RESOLUTION

The Bank shall observe the following rules in relation to the resolution of disputes:

Where any dispute or claim of rights arises between a holder of overseas listed shares and the Bank; or between a holder of overseas listed shares and a director, supervisor, president or other senior management member of the Bank; or between a holder of overseas listed shares and a holder of domestic shares, out of the rights and obligations prescribed in connection with the affairs of the Bank by our Articles of Association, the PRC Company Law and other relevant laws and administrative regulations, the parties concerned shall submit such dispute or claim of rights to arbitration.

Disputes relating to identification of shareholders or to the register of shareholders may not be resolved by way of arbitration.

An arbitration applicant may choose to refer the dispute to the China International Economic and Trade Arbitration Committee for arbitration in accordance with its rules of arbitration, or to the Hong Kong International Arbitration Centre (hereinafter referred to as HKIAC) for arbitration in accordance with its Securities Arbitration Rules. After the arbitration applicant submits the dispute or claim of rights for arbitration, the other party must proceed with the arbitration in the arbitration institution selected by the applicant. If the arbitration applicant elects for arbitration at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

Where the dispute or claim of rights stated in item 1 is to be resolved by way of arbitration, the law of the PRC shall apply, unless stipulated otherwise by laws and administrative regulations.

The awards made by the arbitration institutions shall be final and binding on the parties.

TAXATION

The following is a summary of certain PRC and Hong Kong tax consequences on investors relating to the ownership of H Shares by an investor who purchases such H Shares in the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions. This summary is based on the tax laws of the PRC and Hong Kong in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section in this prospectus does not address any aspect of the PRC or Hong Kong taxation other than income tax, capital tax, business tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of investing in H Shares.

Taxation in the PRC

Taxation on Dividends

Individual Investors

According to the Individual Income Tax Law of the People's Republic of China (中華人民共和國個人所得稅法) ("IIT Law"), as amended, and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to PRC withholding tax of 20% unless specifically exempted by the taxation 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 generally, when distributing dividends, withhold individual income tax at the rate of 10%. For individual holders of H Shares receiving dividends who are identified as tax residents of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the dirtributing non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax rate, and, upon approval by the tax authorities, the amount which is over-withheld will be refunded. For individual holders of H Shares receiving dividends who are identified as tax residents of countries that have entered into a tax treaty with the PRC that provides for tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the applicable rate under the treaties, and no application to the tax authorities is required. For individual holders of H Shares receiving dividends who are identified as tax residents of countries without taxation treaties with the PRC, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%. See "Risk Factors — Risks Relating to the PRC — You will generally be subject to PRC withholding tax on dividends received on our H Shares, and may be subject to PRC tax on gains realized on the disposition of our H Shares."

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion Regarding Income Tax (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 PRC government may levy taxes on the dividends paid by a PRC company to Hong Kong residents in an amount not exceeding 10% of total dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, then the amount of such shall not exceed 5% of the total dividends payable by the PRC 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.

Enterprise Investors

In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) ("EIT Law"), and the Provisions of Implementation for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), both effective on January 1, 2008, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-resident enterprise does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premises in the PRC. The aforesaid income tax must be withheld at source, with the payer of the income being the withholding agent. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation.

The Notice of the State Administration of Taxation on the Issues Concerning Withholding Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise H Share Holders (國家稅務總局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) issued by the SAT and effective on November 6, 2008, further clarified that a PRC resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise H Shareholders which are derived out of profit generated after January 1, 2008. A non-PRC resident enterprise H Shareholder which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion Regrading Income Tax (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 PRC government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a PRC company, but such tax shall not exceed

10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the total amount of dividends payable by that PRC 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征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 arrangements made for the primary purpose of gaining such tax benefit.

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 may be entitled to preferential tax rates on dividends received by such investors from the PRC company. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, respectively, and has entered into treaties for the avoidance of double taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate.

Taxation on Gains from Share Transfer

Individual Investors

In accordance with the IIT Law and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. Under the Circular of the MOF and SAT on Declaring that Individual Income Tax Continues to Be Exempted over Individual Income Tax 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) issued by the MOF and SAT on March 20, 1998, from January 1, 1997, gains of individuals from the transfer of shares of listed companies continue to be exempted from individual income tax. After the latest amendment to the IIT Law on June 30, 2011 and its implementation rules amended on July 19, 2011 and implemented on September 1, 2011, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares. However, on December 31, 2009, the MOF, SAT and CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Moratorium Shares 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通知), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from individual income tax, except for shares of certain specified companies (as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax (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) over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation issued by the MOF, SAT and CSRC on November 10, 2010). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges such as the Hong Kong Stock Exchange. In practice, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprise Investors

In accordance with the EIT Law and its implementation rules, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposition of shares in a PRC resident enterprise, if it does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

PRC stamp duty

Under the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例) amended on January 8, 2011 and the Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例施行細則) amended on November 5, 2004, PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside PRC.

Estate duty

Under its current legal environment, the PRC currently does not impose any estate duty.

Major Taxation of the Company in the PRC

Income tax

According to the EIT Law, enterprises and other organizations generating income within the territory of the PRC are subject to enterprise income tax at the rate of 25%.

VAT

According to the PRC Provisional Regulations on Business Tax (中華人民共和國營業稅暫行條例) amended on November 10, 2008 and implemented on January 1, 2009, enterprises and individuals that provide labour services, transfer intangible assets or sell real estate within the territory of the PRC as specified by such regulations are subject to business tax. The business tax rate applicable to financial and insurance companies is 5%.

Pursuant to the Pilot Reform for Transition from Business Tax to Value-added Tax ("VAT") (營業稅改徵增值稅試點方案) promulgated by the MOF and SAT, effective on November 16, 2011, starting from January 1, 2012, the State started the pilot taxation reform of collecting VAT in lieu of business tax in certain regions (including Shanghai and Beijing) and in certain pilot industries (including transportation and certain modern service industries). The MOF and SAT further notified that the aforesaid pilot reform for the transition from business tax to VAT will be implemented nationwide since August 1, 2013.

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征增值稅試點的通知) 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 (營業稅改征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.

Taxation in Hong Kong

Taxation on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by our Bank.

Taxation on Capital Gains and Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H Shares. However, trading gains from the sale of 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 chargeable to Hong Kong profits tax. Currently, a profits tax is imposed on corporations at a maximum rate of 16.5% and on individuals at a maximum rate of 15.0%. Certain categories of taxpayers are likely to be regarded as generating 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. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arisen 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 will be payable by the purchaser on every purchase, and by the seller on every sale, of H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the market value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% of stamp duty is payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

Foreign Exchange Controls of the PRC

Renminbi is the lawful currency of the PRC, which is subject to foreign exchange controls and is not freely exchangeable. 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 Deepening the Reform of the Foreign Exchange Administration System (國務院關於進一步改革外匯管理體制的通知), since January 1, 1994, the policy of conditional exchange of Renminbi applied to current account items, and the official exchange rate and the market rate for Renminbi was unified. The unified Renminbi exchange rate adopted a single, controlled floating exchange rate system based on market demand and supply. The PBOC will publish the exchange rate of Renminbi to other main currencies on a daily basis by reference to the change of international foreign exchange market. 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 the Regulations of the People's Republic of China for the Control of Foreign Exchange (中華人民共和國外匯管理條例) ("Foreign Exchange Control Regulations") which became effective from April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to the SAFE approval while capital account items are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amended Foreign Exchange Control Regulations clarifies that the State does not impose restrictions on international payments and transfers under the current account items.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) ("Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations abolished all other restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

The Announcement on Issues regarding Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (完善人民幣匯率形成機制改革有關事宜公告) issued by the PBOC on July 21, 2005 and effective on the same date provides that, as of July 21, 2005, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will publish the closing price of a foreign currency such as the US dollar traded against the Renminbi in the interbank foreign exchange market on each trading day after the closing of the market, and will fix the central parity for the transaction of such foreign currency against Renminbi on the following trading day.

Starting from January 4, 2006, the 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, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, the PBOC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade System to make inquiries with the market makers before the interbank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the RMB against the USD 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, the PBOC announced to improve the central parity quotations of RMB against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates.

On August 5, 2008, the State Council promulgated the amended Foreign Exchange Control Regulations, which have made substantial changes to the foreign exchange regulatory system of the PRC. First, it adopted an approach of balancing the inflow and outflow of foreign exchange fund. 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 administration authorities. Second, it improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, it enhanced the monitoring of cross-border foreign exchange fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, it enhanced the supervision and administration of foreign exchange transactions and granted extensive authority to the SAFE to strengthen its supervisory and administrative ability.

Pursuant to the relevant rules and regulations of the State, all foreign exchange income generated from current account transactions of the PRC enterprises may be either retained or sold to financial institutions engaging in the settlement or sale of foreign exchange. Foreign exchange income from loans issued by organizations or from the issuance of bonds and shares outside the territory of the PRC (for example, foreign exchange income received by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks but can be deposited into foreign exchange accounts at the designated foreign exchange banks. The PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of the SAFE, effect payment from their foreign exchange accounts at the designated foreign exchange banks with the support of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises (like us) which, in accordance with regulations, are required to pay dividends to shareholders in foreign exchange, may on the strength of board resolutions or shareholders' resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

The Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters (國務院關於取消和調整一批行政審批項目等事項的決定), which was promulgated by the State Council on October 23, 2014, cancelled the administrative approval by the SAFE and its branches over matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing. According to the Notice on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (關於境外上市外滙管理有關問題的通知) issued by SAFE on December 26, 2014, a domestic issuer shall, within 15 working days after the completion of the offering of shares for its overseas listing, register overseas listing with the Foreign Exchange Bureau at the place of its incorporation. The proceeds raised from overseas listing of a domestic issuer can be repatriated to PRC or deposited overseas, and the usage of such proceeds shall be consistent with the purpose as specified in the prospectus and other disclosure documents. Approval by the SAFE is needed to convert the funds in the domestic designated account to Renminbi. According to the Notice of the State Administration of Foreign Exchange of the PRC on Revolutionize and Regulate Capital Account Settlement Management Policies (國家外滙管理局關於改革和規範資本項目結滙管理政策的通知) 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.

FURTHER INFORMATION ABOUT THE BANK

Incorporation

We were incorporated in the PRC as a limited liability company under the PRC laws on March 6, 2007, with a registered capital of RMB20 billion.

We established a 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 on April 11, 2016 under Part 16 of the Hong Kong Companies Ordinance. Mr. Ngai Wai Fung, our joint company secretary, has been appointed as our agent for the acceptance of service of process in Hong Kong, the correspondence address of whom is the same as our principal place of business in Hong Kong. We are not an authorized institution within the meaning of the Banking Ordinance, not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.

As we were incorporated in China, our corporate structure and Articles of Association shall be in accordance with the relevant laws and regulations of China. A summary of the relevant provisions of our Articles of Association is set out in "Appendix V — Summary of Articles of Association". A summary of certain aspects of the relevant laws and regulations of the PRC is set out in "Appendix IV — Summary of Principal Legal and Regulatory Provisions".

Changes in Share Capital

As at the time of our incorporation, our initial registered capital was RMB20 billion. On January 21, 2012, we were converted into a joint stock company. After the conversion, our total share capital was RMB45 billion, divided into 45,000,000,000 shares of nominal value of RMB1.00 each.

On March 3, 2014, we increased our registered capital to RMB47 billion by capital injection from China Post Group, divided into 47,000,000,000 shares of nominal value of RMB1.00 each.

On June 17, 2015, we increased our registered capital to RMB57 billion by capital injection from China Post Group, divided into 57,000,000,000 shares of nominal value of RMB1.00 each.

In 2015, we entered into the following agreements:

(a) a share subscription agreement with UBS dated September 9, 2015, pursuant to which we agreed to issue 3,496,540,000 new shares to UBS for a consideration in an amount in U.S. dollars equivalent to RMB13,601,540,600, assuming the issue size (as defined in the share subscription agreement) is 13,070,990,000 ordinary shares at the closing (as defined in the share subscription agreement), subject to adjustment in the event of any change in issue size;

(b) a share subscription agreement with China Life dated December 8, 2015 to issue 3,341,900,000 new shares to China Life for a consideration of RMB12,999,991,000;

(c) a share subscription agreement with China Telecom dated November 27, 2015 to issue 1,140,270,000 new shares to China Telecom for a consideration of RMB4,435,650,300;

(d) a share subscription agreement with CPPIB dated September 9, 2015 to issue 822,150,000 new shares to CPPIB for a consideration in an amount in U.S. dollars equivalent to RMB3,198,163,500;

(e) a share subscription agreement with Ant Financial dated September 8, 2015 to issue 738,820,000 new shares to Ant Financial for a consideration of RMB2,874,009,800;

(f) a share subscription agreement with JPMorgan CICII and JPMorgan dated September 8, 2015 to issue 642,670,000 new shares to JPMorgan CICII for a consideration in an amount in U.S. dollars equivalent to RMB2,499,986,300;

(g) a share subscription agreement with FMPL dated September 8, 2015 to issue 493,570,000 new shares to FMPL for a consideration in an amount in U.S. dollars equivalent to RMB1,919,987,300;

(h) a share subscription agreement with IFC dated September 9, 2015 to issue 474,290,000 Shares to IFC for a consideration in an amount in U.S. dollars equivalent to RMB1,844,988,100;

(i) a share subscription agreement with DBS Bank dated September 9, 2015 to issue 398,460,000 new shares to DBS Bank for a consideration in an amount in U.S. dollars equivalent to RMB1,550,009,400; and

(j) a share subscription agreement with Shenzhen Tencent dated September 15, 2015 to issue 128,530,000 new shares to Shenzhen Tencent for a consideration of RMB499,981,700.

After the change of registration in the Administration for Industry and Commerce was completed on March 23, 2016, our registered capital was RMB68,604,000,000, divided into 68,604,000,000 Shares of nominal value of RMB1.00 each. The aforesaid ten shareholders together hold about 16.92% shares in our registered capital, consisting of 11,604,000,000 shares in total.

For more details, see "Our History and Corporate Structure — Changes in Our Registered Capital and Conversion into a Joint Stock Limited Liability Company." Save as disclosed above, as of the Latest Practicable Date, there has been no alteration in our share capital within the two years preceding the date of publication of this prospectus.

Resolutions of Our Shareholders

Pursuant to the shareholders' written resolutions passed on May 31, 2016, among other things, our Shareholders resolved that:

(a) our H Shares to be listed on the Hong Kong Stock Exchange be issued. The number of H Shares to be issued shall not be more than 13,922,576,000 shares (including Shares that may be issued under the Over-allotment Option), not exceeding 16.87% of our total issued share capital after the Global Offering (assuming the Over-allotment Option is exercised in full);

(b) subject to the completion of the Global Offering, the Articles of Association, which shall become effective on the Listing Date be adopted and our Board of Directors and persons authorized by our Board of Directors be authorized to amend the Articles of Association in accordance with the relevant laws and regulations and the requirements by the relevant authorities; and

(c) our Board of Directors and persons authorized by our Board of Directors be authorized to handle matters relating to the Global Offering and Listing.

OUR SUBSIDIARY

Our subsidiary as of March 31, 2016 is listed in "Appendix I — Accountants' Report — II Notes to The Financial Information — 22 Investment in a subsidiary." Set out below are the changes in the share capital of our subsidiary within the two years preceding the date of the publication of this prospectus.

PSBC Consumer Finance

PSBC Consumer Finance was incorporated in the PRC as a limited liability company (Sino-foreign cooperative joint venture) under the PRC laws on November 19, 2015, with a registered capital of RMB1 billion. For details on shareholding of PSBC Consumer Finance, see "Our History and Corporate Structure — Our Shareholding Structure."

Save as disclosed in this prospectus, there has been no alteration in the share capital of our subsidiary within the two years preceding the date of the publication of this prospectus.

RESTRICTIONS ON REPURCHASE OF SHARES

For details, see "Appendix IV — Summary of Principal Legal and Regulatory Provisions — The PRC Company Law, Special Regulations and Mandatory Provisions — Repurchase of Shares."

FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of the publication of this prospectus, which are or may be material:

(a) a share subscription agreement with UBS dated September 9, 2015, pursuant to which we agreed to issue 3,496,540,000 new shares to UBS for a consideration in an amount in U.S. dollars equivalent to RMB13,601,540,600, assuming the issue size (as defined in the share subscription agreement) is 13,070,990,000 ordinary shares at the closing (as defined in the share subscription agreement), subject to adjustment in the event of any change in issue size;

(b) an investor rights agreement with UBS dated September 9, 2015, regarding rights and obligations of UBS;

(c) a Strategic Cooperation Agreement with UBS dated September 14, 2015, regarding our strategic cooperation with UBS;

(d) a share subscription agreement with China Life dated December 8, 2015, pursuant to which we agreed to issue 3,341,900,000 new shares to China Life for a consideration of RMB12,999,991,000;

(e) an investor rights agreement with China Life dated December 8, 2015, regarding rights and obligations of China Life;

(f) a Strategic Cooperation Agreement dated December 8, 2015, regarding our strategic cooperation arrangements with China Life;

(g) a share subscription agreement with China Telecom dated November 27, 2015, pursuant to which we agreed to issue 1,140,270,000 new shares to China Telecom for a consideration of RMB4,435,650,300;

(h) an investor rights agreement with China Telecom dated November 27, 2015, regarding rights and obligations of China Telecom;

(i) a Strategic Cooperation Agreement with China Telecom dated November 27, 2015, regarding our strategic cooperation arrangements with China Telecom;

(j) a share subscription agreement with CPPIB dated September 9, 2015, pursuant to which we agreed to issue 822,150,000 new shares to CPPIB for a consideration in an amount in U.S. dollars equivalent to RMB3,198,163,500;

(k) an investor rights agreement with CPPIB dated September 9, 2015, regarding rights and obligations of CPPIB;

(l) a Strategic Cooperation Agreement with CPPIB dated September 9, 2015, regarding our strategic cooperation arrangements with CPPIB;

(m) a share subscription agreement with Zhejiang Ant Small and Micro Financial Services Group Ltd.* (浙江螞蟻小微金融服務集團有限公司) dated September 8, 2015, pursuant to which we agreed to issue 738,820,000 new shares to Ant Financial for a consideration of RMB2,874,009,800;

(n) an investor rights agreement with Zhejiang Ant Small and Micro Financial Services Group Ltd. dated September 8, 2015, regarding rights and obligations of Ant Financial;

(o) a Strategic Cooperation Agreement with Zhejiang Ant Small and Micro Financial Services Group Ltd. dated September 8, 2015, regarding our strategic cooperation arrangements with Ant Financial;

(p) a share subscription agreement with JPMorgan CICII and JPMorgan dated September 8, 2015, pursuant to which we agreed to issue 642,670,000 new shares to JPMorgan CICII for a consideration in an amount in U.S. dollars equivalent to RMB2,499,986,300;

(q) an investor rights agreement with JPMorgan CICII and JPMorgan dated September 8, 2015, regarding rights and obligations of JPMorgan CICII and JPMorgan;

(r) a Strategic Cooperation Agreement with JPMorgan dated September 8, 2015, regarding our strategic cooperation arrangements with JPMorgan;

(s) a share subscription agreement with FMPL dated September 8, 2015, pursuant to which we agreed to issue 493,570,000 new shares to FMPL for a consideration in an amount in U.S. dollars equivalent to RMB1,919,987,300;

(t) an investor rights agreement with FMPL dated September 8, 2015, regarding rights and obligations of FMPL;

(u) a Strategic Cooperation Agreement with FMPL dated September 8, 2015, regarding our strategic cooperation arrangements with FMPL;

(v) a share subscription agreement with IFC dated September 9, 2015, pursuant to which we agreed to issue 474,290,000 new shares to IFC for a consideration in an amount in U.S. dollars equivalent to RMB1,844,988,100;

(w) an investor rights agreement with IFC dated September 9, 2015, regarding rights and obligations of IFC;

(x) a Strategic Cooperation Agreement with IFC dated September 9, 2015, regarding our strategic cooperation arrangements with IFC;

(y) a policy memorandum of understanding with IFC dated September 9, 2015, recording the agreement between the Bank and IFC on certain policy matters regarding the Bank, as a condition of IFC entering the share subscription agreement with the Bank set out in paragraph (v) above;

(z) a share subscription agreement with DBS Bank dated September 9, 2015 pursuant to which we agreed to issue 398,460,000 new shares to DBS Bank for a consideration in an amount in U.S. dollars equivalent to RMB1,550,009,400;

(aa) an investor rights agreement with DBS Bank dated September 9, 2015, regarding rights and obligations of DBS Bank;

(bb) a Strategic Cooperation Agreement with DBS Bank dated September 9, 2015, regarding our strategic cooperation arrangements with DBS Bank;

(cc) a share subscription agreement with Shenzhen Tencent dated September 15, 2015 pursuant to which we agreed to issue 128,530,000 new shares to Shenzhen Tencent for a consideration of RMB499,981,700;

(dd) an investor rights agreement with Shenzhen Tencent dated September 15, 2015, regarding rights and obligations of Shenzhen Tencent;

(ee) a Strategic Cooperation Agreement with Shenzhen Tencent Computer System Co., Ltd.* (深圳市騰訊計算機系統有限公司) and Shenzhen Qianhai Webank Co., Ltd.* (深圳前海微眾銀行股份有限公司) dated September 15, 2015, regarding our strategic cooperation arrangements with Shenzhen Tencent Computer System Co., Ltd. and Shenzhen Qianhai Webank Co., Ltd.;

(ff) Hong Kong Underwriting Agreement;

(gg) a cornerstone investment agreement dated September 12, 2016 entered into among our Bank, CSIC Investment One Limited, Merrill Lynch Far East Limited, Merrill Lynch International, CCB International Capital Limited (建銀國際金融有限公司), ICBC International Securities Limited (工銀國際證券有限公司), BOCOM International Securities Limited (交銀國際證券有限公司) and First Capital Securities Limited (首控證券有限公司), pursuant to which CSIC Investment One Limited has agreed to subscribe for our 3,423,340,000 H Shares;

(hh) a cornerstone investment agreement dated September 12, 2016 entered into among our Bank, Shanghai International Port Group (HK) Co., Limited, J.P. Morgan Securities (Asia Pacific) Limited, J.P. Morgan Securities plc, China Merchants Securities (HK) Co., Ltd. and The Hongkong and Shanghai Banking Corporation Limited, pursuant to which Shanghai International Port Group (HK) Co., Limited has agreed to subscribe for our 3,349,490,000 H Shares;

(ii) a cornerstone investment agreement dated September 12, 2016 entered into among our Bank, Victory Global Group Limited and UBS AG Hong Kong Branch, pursuant to which Victory Global Group Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased in the amount of US$1,000 million;

(jj) a cornerstone investment agreement dated September 12, 2016 entered into among our Bank, State Grid Overseas Investment Limited, Goldman Sachs (Asia) L.L.C. and Morgan Stanley Asia Limited, pursuant to which State Grid Overseas Investment Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased in the amount of US$300 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee);

(kk) a cornerstone investment agreement dated September 12, 2016 entered into among our Bank, China Chengtong Holdings Group Limited and UBS AG Hong Kong Branch, pursuant to which China Chengtong Holdings Group Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased in the amount of US$150 million; and (ll) a cornerstone investment agreement dated September 12, 2016 entered into among our Bank, Great Wall Pan Asia International Investment Co., Limited (長城環亞國際投資有限公司), J.P. Morgan Securities (Asia Pacific) Limited and J.P. Morgan Securities plc, pursuant to which Great Wall Pan Asia International Investment Co., Limited (長城環亞國際投資有限公司) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased in the amount of US$100 million.

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we have registered or applied for registration of or have been granted the following material intellectual property rights.

Patent

As of the Latest Practicable Date, we have registered the following material patent:

Patent Name	Patent Classification	Place of Registration	Patent No.	Expiry Date
A cloud data service system platform for supporting banking applications	Invention	PRC	ZL 2012 1 0282739.7	August 9, 2032
A cloud data service system platform for supporting banking applications	Utility model	PRC	ZL 2012 2 0394733.4	August 9, 2022

Computer Software Copyright

As of the Latest Practicable Date, we have registered the following material computer software copyrights:

Computer Software Copyright	Place of Registration	Registration No.	Registration Date
Postal Savings Bank of China retail customer marketing system	PRC	2016SR015668	January 21, 2016
Postal Savings Bank of China corporate customer marketing system	PRC	2016SR015704	January 21, 2016
Postal Savings Bank of China city pay system	PRC	2016SR015699	January 21, 2016
Postal Savings Bank of China Mobile Business Development system	PRC	2016SR015087	January 21, 2016
Postal Savings Bank of China authorized outlets centralized system	PRC	2016SR014874	January 21, 2016
Postal Savings Bank of China postal finance intermediary business platform	PRC	2016SR015201	January 21, 2016

Computer Software Copyright	Place of Registration	Registration No.	Registration Date
Postal Savings Bank of China Jiangsu branch asset preservation system	PRC	2015SR190454	September 30, 2015
Postal Savings Bank of China Jiangsu branch off-site audit system	PRC	2015SR190443	September 30, 2015
Postal Savings Bank of China Jiangsu branch automatic equipment management system	PRC	2015SR191075	September 30, 2015
Postal Savings Bank of China Jiangsu branch centralized remuneration payment system	PRC	2015SR190633	September 30, 2015
Postal Savings Bank of China Jiangsu branch non-compliance points system	PRC	2015SR190299	September 30, 2015
Postal Savings Bank of China Jiangsu branch paperless operation system	PRC	2015SR190715	September 30, 2015
Postal Savings Bank of China Jiangsu branch comprehensive material management system	PRC	2015SR190628	September 30, 2015
Postal Savings Bank of China Jiangsu branch city pay clearing system	PRC	2015SR190623	September 30, 2015

Trademarks

As of the Latest Practicable Date, we have registered the following material trademarks in PRC:

Trademark
中国邮政储蓄银行 POSTAL SAVINGS BANK OF CHINA

绿卡通
邮政储蓄绿卡
95580
邮储银行
PSBC
邮政储蓄银行

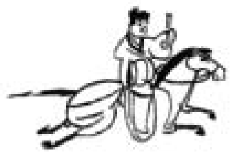
Trademark
邮政储蓄
邮行
邮储
祥福金
商易通
创富
天富
佳信家美
佳信家和
祥云
24K礼遇 金质人生
优赢+U
优赢经纶
优赢

Trademark
绿
御享
汇易达
中国邮政储蓄银行 POSTAL SAVINGS BANK OF CHINA
一汇通 一汇通天下
郵儲金 郵儲金
财贷惠 CAIDAIHUI
保贷惠 BAODAIHUI

As of the Latest Practicable Date, we have been granted by China Post Group to use the following material trademarks registered in PRC:

Trademark

As the Latest Practicable Date, we have registered the following material trademarks in Hong Kong:

Trademark


邮储银行 PSBC
郵儲銀行 PSBC
中邮银
中郵銀
中国邮储
中國郵儲

Trademark
中国邮储银行
中國郵儲銀行
中邮银行
中郵銀行
普惠万家 成就梦想
普惠万家 成就梦想
普惠萬家 成就夢想
普惠萬家 成就夢想

As of the Latest Practicable Date, we have applied to register the following material trademarks in Hong Kong:

Trademark
中國邮政储蓄银行 POSTAL SAVINGS BANK OF CHINA
中國郵政儲蓄銀行 POSTAL SAVINGS BANK OF CHINA
绿卡通
綠咭通
邮政储蓄绿卡
郵政儲蓄綠咭
95580

Trademark
中国邮政银行
中國郵政銀行
进步 与您同步
进步 与您同步
進步 與您同步
進步 與您同步
Post Bank of China
China Post Bank
邮政银行
郵政銀行
中国邮政储蓄银行 POSTAL SAVINGS BANK OF CHINA
中國郵政儲蓄銀行 POSTAL SAVINGS BANK OF CHINA

As of the Latest Practicable Date, we have been granted by China Post Group to use the following material trademarks being applied for registration in Hong Kong:

Trademark
中国邮政 CHINA POST

Domain Names

As of the Latest Practicable Date, we have registered the following material Internet domain names in PRC:

Domain Name	Expiry Date
psbc.中國	October 29, 2022
95580.中國	October 29, 2022
中國郵儲 (general website)	June 29, 2024
郵儲 (general website)	August 2, 2024
中國郵政儲蓄銀行 (wireless website)	August 27, 2024
郵政儲蓄 (wireless website)	August 27, 2024
psbc (wireless website)	August 27, 2024
95580 (wireless website)	August 27, 2024
中國郵政儲蓄銀行 (information address)	July 21, 2024
95580 (information address)	July 24, 2024
psbc (information address)	July 16, 2024
中國郵政儲蓄銀行手機銀行 (information address)	July 21, 2024
psbc.com	December 3, 2019

OUR BORROWER

Our five largest borrowers accounted for less than 30% of the total loans to customers as of the Latest Practicable Date.

FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

Disclosure of Interests

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of the Directors, Supervisors and chief executive hold any interest or short position in our shares, underlying shares and debentures and any of our associated corporation (within the meaning of Part XV of the SFO) notifiable to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to us and the Hong Kong Stock Exchange.

Substantial Shareholders

For information on persons who will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO immediately following the completion of the Global Offering, see "Substantial Shareholders."

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the following persons (except for our Directors, Supervisors or chief executive) 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 general meetings of our other member companies.

Our member companies	Person owning 10% or more interests (except us)	Percentage of interest held by the person
PSBC Consumer Finance	DBS Bank	12%
	Bohai Trust	11%

Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

Each Director entered into a contract with us on September 12, 2016. The main details of the service contracts: (a) each contract for a term of three years commencing from the appointment date of Directors; and (b) each contract shall be terminated pursuant to its terms. The service contracts can be renewed pursuant to our Articles of Association and applicable rules.

We have entered into a contract with each of our Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration on September 12, 2016.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation)).

Directors' and Supervisors' Remuneration

Save as disclosed in "Directors, Supervisors and Senior Management" and "Appendix I — Accountants' Report — II Notes to The Financial Information — 10. Emoluments of directors and supervisors," for each of the three financial years ending 31 December 2015, none of our Directors or Supervisors received other remunerations or benefits in kind from us.

Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors or Supervisors and any persons set out in the paragraph headed "Qualifications of Experts" in this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;

(b) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting as of the date of this prospectus which is significant to our business;

(c) none of our Directors and Supervisors or their close associates or any shareholders of our Bank who, to the knowledge of the Directors and Supervisors, owns more than 5% of our issued share capital, has any interest in our top five borrowers during the Track Record Period; and

(d) none of the Directors or Supervisors is a director or employee that has an interest or short position in our Shares or underlying Shares that would be required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

OTHER INFORMATION

Estate Duty

Our Directors have been advised that there is no material liability for estate duty that is likely to be imposed on us or any of our subsidiaries.

Litigations

Save as disclosed in this prospectus, as of the Latest Practicable Date, we are not involved in any material litigation, arbitration or administrative proceedings which may have a material adverse impact on our financial position or operating results, and so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. We have made all necessary arrangements to enable the securities to be admitted into CCASS.

China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited, Merrill Lynch Far East Limited and Goldman Sachs (Asia) L.L.C., four of the Joint Sponsors, satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

J.P. Morgan Securities (Far East) Limited, one of the Joint Sponsors, does not consider itself to be independent from the Bank according to Rule 3A.07 of the Listing Rules since, as disclosed in the section headed "Our Strategic Investors," (1) JPMorgan CICII, an indirectly wholly-owned subsidiary of JPMorgan, is a shareholder of the Bank with 0.94% shareholding; and (2) JPMorgan has entered into a strategic cooperation agreement with the Bank to provide assistance, support and training to the Bank for its various business lines.

We will pay a sum of US$100,000 to each Joint Sponsor as the sponsor fee related to our Listing.

Preliminary Expenses

We do not have any significant preliminary expenses.

Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows.

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Morgan Stanley Asia Limited	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities (as defined in the SFO)
Merrill Lynch Far East Limited	A licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities (as defined in the SFO)
Goldman Sachs (Asia) L.L.C.	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities (as defined in the SFO)
J.P. Morgan Securities (Far East) Limited	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
PricewaterhouseCoopers	Certified Public Accountants
Haiwen & Partners	Legal advisors as to PRC law
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer

Consents of Experts

Each expert stated in the paragraph headed "Qualification of Experts" in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports, and/or opinions (as the case may be) and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any of our shareholding interests or rights (whether legally enforceable or not) or any of our members to subscribe for or to nominate persons to subscribe for our securities or any of our member.

Compliance Advisor

We have appointed China International Capital Corporation Hong Kong Securities Limited as the compliance advisor after listing pursuant to Rule 3A.19 of the Listing Rules.

Taxation of Holders of the H Shares of the Bank

The sale, purchase and transfer of H Shares are subject to the Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK$1.00 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

No Material Adverse Change

Save as disclosed in the "Summary — Recent Development and No Material Adverse Change" and "Financial Information — Recent Development and No Material Adverse Change," after all due diligence was performed as appropriate as the Directors believe, our Directors confirm that, as of the date of this prospectus, there has been no material adverse change in our financial position or prospects since March 31, 2016 and there has been no event that material adversely affected the data set out in the Accountants' Report in Appendix I to this prospectus since March 31, 2016.

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 Ordinance (Winding Up and Miscellaneous Provisions) so far as applicable.

Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of the publication of this prospectus, (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any of our capital;

(b) none of our 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) there are no arrangements under which future dividends are waived or agreed to be waived;

(e) there are no exercise of any right of pre-emption or transfer of subscription rights or carrying procedures;

(f) 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;

(g) 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;

(h) there are no restrictions affecting our remittance of profits or repatriation of capital into Hong Kong from overseas;

(i) none of our equity and debt securities (if any) is listed or dealt in on any stock exchanges or trading system and no such listing or permission to list is being or is currently agreed to be sought from any other stock exchanges other than the Hong Kong Stock Exchange;

(j) we have no outstanding convertible debt securities or debentures; and

(k) we currently do not intend to apply for the status of a Sino-forign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC* (中華人民共和國中外合資經營企業法).

We have adopted the code of conduct regarding securities transactions by our Directors and Supervisors set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules, which will be effective upon the Listing Date.

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).

Promoter

Our promoter is China Post Group. Save as disclosed in this prospectus, within the two years immediately preceding the date of publication of this prospectus, no cash, securities or benefits has been paid, allotted or given, or has been proposed to be paid, allotted or given, to our promoter in connection with the Global Offering or the transactions described in this prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Appendix VII — Statutory and General Information — Other Information — Consents of Experts"; and

(c) a copy of each of the material contracts referred to in "Appendix VII — Statutory and General Information — Further Information about Our Business — Summary of Material Contracts."

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountant's report in relation to historical financial information, the text of which is set out in Appendix I;

(c) the audited financial statements of our Bank for the three years ended December 31, 2015 and the three months ended March 31, 2016;

(d) the unaudited supplementary financial information, the text of which is set out in "Appendix II — Unaudited Supplementary Financial Information";

(e) the report in relation to unaudited pro forma financial information, the text of which is set out in "Appendix III — Unaudited Pro Forma Financial Information";

(f) the material contracts referred to in the section titled "Appendix VII — Statutory and General Information — Further Information about Our Business — Summary of Material Contracts";

(g) the service contracts with Directors and Supervisors referred to in "Appendix VII — Statutory and General Information — Further Information about Directors, Supervisors, Management and Substantial Shareholders — Service Contracts";

(h) the written consents referred to in "Appendix VII — Statutory and General Information — Other Information — Consents of Experts";

(i) the legal opinions prepared by Haiwen & Partners, our legal advisors as to PRC law, in respect of certain aspects of our Bank and the property interests;

(j) the PRC Company Law, the PRC Securities Law, the PRC Commercial Banking Law, the Mandatory Provisions and the Special Regulations together with their unofficial translations; and

(k) the letter relating to the rental value of certain properties of the Bank and China Post Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA